



European Affairs Committee

Corrected oral evidence: The UK-EU reset

Tuesday 25 March 2025

3.30 pm

Watch the meeting

Members present: Lord Ricketts (The Chair); Baroness Ashton of Upholland; Lord Frost; Lord Jackson of Peterborough; Baroness Ludford; Baroness Nicholson of Winterbourne; Lord Stirrup; Baroness Suttie; Duke of Wellington; Lord Whitty; Baroness Winterton of Doncaster.

Evidence Session No. 9

Heard in Public

Questions 92 – 102

Witnesses

[I](#): Silke Goldberg, Partner, Herbert Smith Freehills; Matt Hinde, Head of EU Affairs, National Grid; Adam Berman, Director of Policy and Advocacy, Energy UK.

Examination of witnesses

Silke Goldberg, Matt Hinde and Adam Berman.

Q92 The Chair: Welcome to another session of the Lords European Affairs Committee in our inquiry into the Government's reset of relations with the EU and what we think they should be concentrating on.

I am delighted to welcome three guests today in the area of energy and climate change: Silke Goldberg, partner at Herbert Smith Freehills; Matt Hinde, head of EU Affairs at National Grid, who has been to the committee in different manifestations over the last few years; and Adam Berman, director of policy and advocacy at Energy UK. Thank you all very much indeed.

I start by declaring an interest. I am a non-executive director of Getlink Eurotunnel, which has an electricity interconnector through the tunnel, so I shall not involve myself in any questions about that.

I shall start with a general opening question for each of you: how would you sum up the current state of our relationship with the EU on energy and climate change in particular? How do you think Title VIII of the EU-UK Trade and Cooperation Agreement covering energy is working in practice? Ms Goldberg, if I turn to you first, I wonder whether you might say a word about the issue of the Moscow office of your partnership to get that clearly on the record.

Silke Goldberg: Thank you very much. I welcome this opportunity to go on the record. We are very sorry that our former Moscow office breached sanctions, and we have always recognised the seriousness of this issue. We take compliance very seriously and have the appropriate systems in place. We therefore self-reported as soon as the relevant error in Moscow was discovered, which happened in the last week of the existence of our Moscow office. Like many law firms and western businesses, we immediately withdrew from Moscow following the Russian invasion of Ukraine. We have, at all points, co-operated with the OFSI, which has recognised that these payments were effectively made as a matter of human error. It happened as part of our withdrawal from Russia as a firm and the withdrawal was in compliance with general UK policy under sanctions. We are supportive of that policy; and the payments were a result of human error.

The Chair: Thank you very much; it was useful to get that clear. To come to the substance of the meeting, do you want to lead off while you have the floor?

Silke Goldberg: It is an interesting question: what is the state of the relationship between the UK and the EU? The last time we spoke in this forum, when I had the opportunity to give evidence, there was a lot of talk about how the relationship might develop. From a legal perspective, there has not been a huge amount of change. The TCA, as the basis of the relationship between the UK and the European Union, has never been

fully implemented, or has been implemented only hesitantly. What do I mean by implementation? It has not been given full effect in all circumstances.

I mention the electricity trading arrangements and the administrative arrangements between Ofgem and ACER, which have only recently come to pass. Effectively, the TCA had mandated them much earlier. However, from a purely legal perspective, the recent paper between Ofgem and ACER is simply not legally binding. It expresses a very high-level of intent: the parties intend to exchange information and co-operate but there is no institutional framework around this which, in very highly technical areas such as energy and emission trading, actually makes finding a way to co-operate quite complicated.

I would say the same in relation to co-operation on the European Network of Transmission System Operators for Electricity when it comes to developing a meshed North Sea grid and developing the North Sea as the energy source for the continent in the broader sense—but my colleagues can probably speak in more detail about that.

The Chair: We will come on to that in more detail in the questioning.

Silke Goldberg: From a legal perspective, there are contacts, but the institutional framework for the same is lacking and the relevant infrastructure needs to be developed. That is still tentative and there is no institutional framework. Overall, as a consequence of the way the TCA has been put together, the relationship is much more politicised. The scaffolding for the everyday regulatory co-operation and the institutional framework is simply missing.

The Chair: Thank you very much for getting us started. Mr Hinde, do you want to follow up?

Matt Hinde: Thank you very much for the invitation to come today. In terms of progress in the relationship, it is worth bearing in mind what happened in 2022. The Russian invasion of Ukraine fundamentally changed the political dynamic around energy co-operation, and 2022 is a very good example of the interdependence between the UK and the EU.

The UK National Transmission System and LNG terminals contributed about 16% of EU gas storage over the course of the year. The French nuclear fleet being on outage meant that historical flows on the UK-France interconnectors were reversed entirely to import into France and Norwegian hydro, being low due to a drought, meant that Norwegian flows reversed as well. That is a very good example of the strong interdependency between the two systems. It has had a knock-on effect in terms of the sense of importance of co-operation on energy, but it has not necessarily translated through into technical working-level co-operation. That said, in some ways there has been quite a lot of progress on the energy side.

The European Network of Transmission System Operators for Gas, ENTSOG, has functional working arrangements as foreseen under the TCA but, unfortunately, that is not the case for electricity. A working group on security of supply has been constructed, which is positive, and there was the signature of the North Sea Energy Co-operation Memorandum of Understanding in December 2022. Where there has not been as much progress is the development of post-Brexit efficient electricity trading arrangements, which has taken much longer than foreseen in the TCA.

The Chair: We shall unpack that as we go. That was very helpful, thank you.

Adam Berman: To add a few comments on the politics; it has been a frustrating few years since the TCA was signed. In any case, the TCA is limited in terms of how it touches on key elements of the energy system and climate action. This is an area where there is an incredibly high level of alignment on both sides. There is a legally binding net zero target; they call it climate neutrality in Brussels. There are intermediary targets and there are policy mechanisms that look almost exactly the same on both sides of the Channel. However, we have maintained complete independence from one another in terms of co-operation between those different mechanisms. The TCA structure has allowed some limited dialogue between both sides on a working level, so we have a Specialised Committee on Energy which meets about twice a year. The conversations have improved in tenor over recent months but, none the less, they are limited.

We have seen positive noises over recent months from the current Government, although it is worth saying that, by the time we get to the much-fabled May summit, it is going to be 10 months into this Government's tenure. There are areas in which we could make pretty quick progress, ETS linkage being the most opportune one. Otherwise, there is a list of energy measures which are frankly not highly political. These are measures that most people would argue are in the best interests of both sides. There is no game theory perspective in which the UK benefits massively from one thing or the other. They are clearly beneficial from both sides. We are seeing hopeful noises and would like to see that go further, but it means that there is quite a lot resting on the shoulders of that May summit now in terms of what it can deliver in both kicking off some negotiations and unlocking political tensions that have blocked progress in the last two or three years.

The Chair: On one specific point, you mentioned the Specialised Committee. I was a bit surprised to see it only met once in 2023 and once in 2024. Is that enough? Ought we to be expecting the Specialised Committee to be working and meeting more often?

Adam Berman: The challenge is that it will respond to the political climate around it. If the political climate says there is no progress to be made, the Specialised Committee cannot do anything. There are fantastic officials on both sides who are very keen to see progress, but we have

not seen the politics enable that. Over the last 18 months, we have seen conversations improve, particularly after the MoU on the North Seas Energy Cooperation was signed between the UK and the EU, which was the first positive movement towards some degree of co-operation beyond the TCA. That has allowed things to improve slightly—but, until we see very high-level political advocacy to resolve some of these tensions, I do not think the committee can do much.

Silke Goldberg: May I qualify that briefly? I have one point to make in relation to the North Seas Energy Cooperation; it was not necessarily a consequence of Brexit that the UK had to leave that co-operation. Effectively, the UK rejoining in December 2022 put it in the position that it should have been in regardless of Brexit, because the NSEC is not technically a European Union institution.

Lord Frost: A quick follow-up, primarily to Mr Berman. You used words like “progress” and “improve” quite frequently during your presentation. I wondered if you could explain how you would define progress and improve in this context because different people may have different views on what progress is.

Adam Berman: That is a very reasonable question. The primary purpose of co-operation in relation to climate and energy is that it lowers the cost. It lowers the cost of achieving whatever targets you might have; whether that is net zero or whether you simply want to build out a lot more energy infrastructure and lower barriers to trade on both sides. So things like linkage of emissions trading systems, particularly in light of the incoming EU Carbon Border Adjustment Mechanism, but also electricity trading, are key areas where, frankly, if we have a high degree of alignment on both sides and we have political targets that are almost identical on both sides, pursuing very different pathways seems not to be the most sensible approach, given that we know the best way to achieve net zero and the best way to achieve a rapid rollout of clean energy is by ensuring high levels of co-operation. It is the fastest and cheapest way of achieving targets.

The Chair: We will come back to many of these issues.

Q93 **Lord Jackson of Peterborough:** This question has been answered to an extent already, but what weight and urgency are the Government giving to energy issues as part of their reset policy generally? Would you consider these levels appropriate? Notwithstanding the warm words of Mr Thomas Simmons in various speeches and given, as you have said, the eight months of this Government, there is remarkably little in terms of achievements in the energy sector with regard to the ongoing relationship between the United Kingdom and the EU. What are your views on that, Mr Hinde?

Matt Hinde: My understanding is that the Government are prioritising this in terms of the reset. In the run-up to the 19 May summit, there was a statement from the Department for Energy Security and Net Zero

saying that emissions trading linkage was on the agenda which, as far as the National Grid is concerned, we very much support.

The Government have also been working hard on the official electricity trading arrangements. That is a highly complex negotiation; it is proving more difficult than was envisaged. Within the TCA, there was a target of 15 months for full technical considerations to be brought forward. That was not possible; it has certainly taken longer than expected. As Adam said, from our perspective as the owner and operators of the majority of interconnectors with the continent, it is very important that that progresses.

Silke Goldberg: I would underline the statement by Mr Hinde in relation to the technical nature of this area. The politics around it is for others to judge, but it has taken a long time to make technical and legal progress.

If you look at the minutes of the Specialised Committee on Energy, there has been very slow progress on the energy trading arrangements, chiefly because it is an incredibly complicated area. Effectively, what the TCA tried to do is invent a type of flow-based coupling of the electricity markets which did not actually exist in this form. A similar form existed in 2006, a low-volume based coupling between Denmark and Germany. It was abandoned because it was not efficient. The attempt to replicate that effectively on an international basis has proven nigh on impossible. There are other types of coupling, flow or price-based. The best version now would be price based, but that would mean effectively a return to much more integrated trading. The flow-based type is incredibly complicated, which has been shown. Is it partially political on both sides? Perhaps. However, chiefly it is a technical issue, but usually technical solutions can be found if there is a political will.

Adam Berman: The main area in which the Government seem to be fairly set is the consideration of linkage of emissions trading systems. The UK Government have been very studious in saying they would like to link, without quite saying they would like to link. They found every other form of language that they could say in trying to put that across—I am not quite sure why. I do not know why the UK Government could not simply come out and say, “Yes, we have every intention of pursuing this. We would like to put it on the agenda in the May summit”. That is clearly a political strategy, so I will leave it to others to decide whether it is the right one, but all I would say is that every statement Ministers have made in various different departments, not just the Department for Energy Security and Net Zero but also the Cabinet Office, suggest this will be put on the agenda in the May summit.

Lord Jackson of Peterborough: Very briefly, I am going to come back to Ms Goldberg. Obviously, you do not want to speculate too much on political issues, but what are the legal issues that have dragged this policy out?

Silke Goldberg: Honestly, from a legal perspective the linking of the UK ETS and the EU ETS is reasonably simple and straightforward. Arguably,

you do not even need primary legislation in the UK. We have a precedent for the Swiss linkage, which is very clear. With the right political will, this could be done reasonably quickly. I do not actually foresee any legal hurdles because, if we reflect in this room on the preconditions to linkage, you need to have similar design and equivalency in terms of the fungibility of the allowances that are being traded. Both regimes need to be compulsory, so you cannot have voluntary and compulsory regimes linked. All these conditions are met. In fact, it is almost going full circle, because the EU ETS is based on the UK ETS design of 2005. That influenced the EU ETS. In turn, the UK ETS, as it is now, is based in part on the same software as the EU ETS is in the European Union.

The difference at the moment is in price and liquidity of markets. The EU ETS price is around €80 as of this morning. I believe the UK ETS price is around €40, and that is chiefly to do with the more illiquid nature of the UK ETS market. Legally, there are very few hurdles, and they can be overcome very quickly.

The Chair: Lord Whitty, you wanted to come in?

Lord Whitty: Yes, in relation to the last two questions you said, "This could be done, but it needs rather more political will". Are you suggesting the political will is lacking on the European side, on the British side, or both?

Silke Goldberg: I would answer differently; the TCA is all but written in order to allow the linkage. It now takes both parties to say, "We want this". I have a feeling, if my colleagues allow me a political speculation, that on both sides there is a little bit of who is moving first and who says it. It just needs to be done, because you will have a much more effective market and, ultimately, it will help both the UK and the EU in achieving net zero or climate neutrality.

Adam Berman: I would argue broadly that there is political will on both sides. There is clearly political will on the UK side—that much we have just concluded. The European Commission has, over the last couple of years, always been clear that if the UK wanted to link it was for the UK to tell the EU they wanted to link and then they would get into a discussion about it. That seems to broadly have happened, or at least be in the process of happening at the moment.

To the question of whether there is political will on the European Council side, I point the committee to the leaked document from the European Council from December which shows very clearly that not only is it open to linkage but it sees the benefits of linkage. It sees the mutual benefits on both sides. For me it is as clear a signal as the EU could give, that in a document it says, "Yes, we think that could be a good idea and we would be happy to have that discussion".

The Chair: What I might do, with Baroness Suttie's agreement, is change the order of our questions and go straight to Baroness Ludford who is going to dig into the ETS.

Q94 Baroness Ludford: I was anticipating a later question because I was going to ask what the state of play is in respect to the linking of ETS. Adam, you conveniently referred to the Hungarian presidency document in December, which was full of encouraging words about a willingness to do that, but it also said that support was based on the condition there would be full dynamic alignment to the Union acquis, the jurisdiction of the court and an enforcement mechanism to tackle possible non-compliance, and that the UK would be expected to contribute to the cost of linking the system. We then had evidence from trade experts, and one of them thought that that was over-egging the pudding and that all of that would probably not actually be required. For instance, the linkage between the EU and Switzerland, which you referred to, does not include the Court of Justice, which at least avoids one red line.

First, do you have any indication on the alignment issue? Secondly—and in some quarters it is more of a political obstacle but not, it has to be said, in mine—do you have any thought on the practicalities? You said that we are pretty much aligned as it is, but keeping up with EU laws is a different matter. Do you have any problem with it in principle?

Adam Berman: I am happy to start off and then pass to my colleagues. You are absolutely right on the ECJ. There was general confusion as to why that was in the document, given the EU-Swiss linkage. I do not think there would be a need for it. Essentially, you would end up with the same UN tribunal mechanism that underpins the TCA. I see no difference there.

This is all going to come down to the question of dynamic alignment, which probably means different things to different people. Dynamic alignment runs through the heart of the EU-Swiss linkage agreement, yet you will find no mention of it anywhere. They will talk about mechanisms to stop the linkage under certain circumstances, they will talk about co-operation and they will talk about discussion; they will say that no one side can do something pretty substantive without the other side being consulted, and all this type of language. This is what dynamic alignment means in practice, and I imagine it is probably where the UK and EU might end up, should that linkage agreement be finalised.

There will be some things that it is important to recognise that the UK will have to discuss. Probably the biggest and most complex of the lot is the inclusion of maritime within our emissions trading system. The EU includes all international maritime voyages, or at least a percentage of them, under their emissions trading system. We include domestic maritime voyages but nothing international. Today, if something comes from the Port of Rotterdam and goes to the Port of London, there is no ETS charge payable. However, if it comes from the Hebrides to the Port of London, there will be. We would almost certainly need to enter into a discussion about expanding our ETS to maritime. It is probably going to happen anyway. The UK Government have pretty challenging and ambitious targets around net zero, which include maritime; they include international maritime emissions. So, either way, this is probably going to have to happen. I do not think this is the most challenging thing, but it is

worth recognising that it is something they will have to negotiate at a high level.

Beyond that you end up in a lot of technical discussions around things like the registry, so the computer system where all the allowances sit and the physical security of that, the cybersecurity. You will end up in discussions about the cap of the system and how the allowances get allocated. These are technical discussions but, where there is a political will there is a technical way, as Silke just put it.

As to the question of what that actually looks like in political terms, it looks like a system in which the UK retains control of the vast majority of the rules and maintains control of the revenues. However, it enters into a pretty open discussion with the EU, on a regular basis, about the shape of policy. I would say that that is a positive thing because, in any case, both systems are heading in the same direction. Both systems are largely having the same discussions about the same sort of developments, but they are doing them in silos, particularly when looking at things like the development of carbon capture and storage in the UK. We are having that discussion entirely separately from the EU. It would be much better, given what an incredible export possibility it is for us to take in carbon from the European market and bring it to the UK, to do that all under the auspices of the emissions trading system. It would be much better if we could be in the tent and talking about how that works in practice.

Silke Goldberg: I can add a little in relation to what technical alignment might look like. Adam has already mentioned the in-scoping of the maritime emissions. Beyond that it is in relation to the market stability mechanism, where the UK ETS has a similar but not entirely identical mechanism to the EU ETS. In order to get that documented appropriately, it would be an amendment to a statutory instrument—and then there is alignment in relation to exactly how the free allocation of UK ETS allowances are being calculated. Again, it is very similar but not entirely identical. There would then need to be a statutory instrument change which would formally recognise EU ETS allowances in order to be used in the UK ETS regime. Beyond that, you would need an order in the UK to operationalise this. It is an entirely technical agreement.

As far as the comment is concerned, that is almost it, in terms of the legal changes that would be required. It could be done reasonably quickly. In fact, I can volunteer to write it up for the committee or whoever would like to negotiate it. At the same time, to pick up the ECJ point, I do not think that ECJ jurisdiction in relation to the UK ETS would be needed at all. The ECJ has jurisdiction in relation to the EU ETS, as is proper because it is a European Union instrument. The Swiss agreement has a special type of arbitration tribunal for the adjudication, to the extent that the ECJ changes things in the EU ETS. I cannot imagine what that might be at the moment because the ECJ is not involved in that sense in the running of the EU ETS. Perhaps there might be dynamic alignment, but that is so derivative of the actual alignment that it is hard to imagine a concrete circumstance where that might be the case.

Matt Hinde: I would agree with what my colleagues have said. The additional point that I would bring forward is that we support linkage per se, because it is good in terms of liquidity of the UK system and will enable more efficient economic decarbonisation. However, the other issue that really drives this from our perspective is the EU Carbon Border Adjustment Mechanism. On the EU side, it will apply to electricity, which will create a significant non-tariff and tariff barrier in the North Sea and the Irish Sea. It will have a deleterious impact on interconnective flows. By extension, it will increase curtailment of renewable energy resources in the UK. It will increase costs, both for UK and EU consumers, and it will have a negative impact on future investment planning in the North Sea. Dealing with that is very important and, practically speaking, linkage of the systems is really the only route to deal with it.

The Chair: Lord Jackson wanted to come in, and then I might go to Baroness Ashton who also had a question in the same area.

Lord Jackson of Peterborough: I was very interested in your comments about maritime. Would there be significant territorial ramifications if you included UK maritime? The reason I ask is that we import a lot of liquefied natural gas from the United States. It comes out of Arizona and New Mexico, ends up in Galveston, Texas, where it is solidified and goes across the Atlantic in a huge container emitting huge amounts of CO₂ emissions. It ends up at Milford Haven, is liquefied again and is then pumped into the grid.

If we accepted the ETS model, would all that be included in terms of CO₂ emissions, and would that bust our CO₂ emissions targets in terms of net zero? It sounds like, if you included maritime, it would. I know it is a bit of a techie question but, nevertheless, it potentially has big ramifications.

Silke Goldberg: That is an excellent question. I do not think it would bust the targets, because the CO₂ emissions would be there in any event. It is different. I would distinguish the UK ETS and the carbon budgets effectively, and the way in which the EU ETS and the UK ETS would deal with LNG. It would arguably be in-scoped as a result; if it is not in-scoped, then CBAM would apply. Either way, you would have that part of the industry pay the equivalent of the EU ETS carbon price already. I am very happy to come back to the committee with a more detailed answer to that, but I do not think it would have an impact on busting the carbon budget as a result, because it does not change the amount of carbon that is effectively within the industry.

Lord Jackson of Peterborough: Except that, at the moment, the Mid-Atlantic and south-east Texas is presumably not covered, and it would be if you included all maritime in the calculations.

Silke Goldberg: I see where you are coming from with that, but I do not think it impacts the way the carbon budgets are calculated for UK purposes. I am very happy to come back with a more detailed technical answer.

The Chair: Thank you very much. Baroness Ashton, do you want to complete the questioning on ETS and then we will move on?

Q95 **Baroness Ashton of Upholland:** It has been answered; it was about the legal and policy implications of linkage in terms of price fluctuation and global leadership. The other way of asking the question is: are there any reasons why we should not link? Are there any negatives to doing it?

Adam Berman: Linkage is a slightly unusual topic in that I would struggle to name you a sector of the British economy which is not in favour of it today. If you find one I would be fascinated to meet it, but I have certainly not come across one.

It is worth being honest about what the impact of linkage is, and there is a short to medium-term question which is around the pricing impact. The moment when the UK and the EU even start to discuss linkage arrangements, let alone actually finalise the negotiation, you will probably see prices converge overnight, or at the very least within a matter of days. I would imagine the UK carbon price would essentially converge, because the difference between the two carbon prices would be arbitrated away by traders. So you would see the UK carbon price rise to that of the EU carbon price—so, absolutely, there is a short-term price increase.

To those that might be sceptical of that, I would say look at those industries that are harder to abate, such as steel or cement, and ask why they are in favour of ETS linkage, even if the carbon prices rise. There are two reasons for that. First, the UK ETS has been really volatile over the last 18 months. It does not provide, as things currently stand, a clear pathway to decarbonisation for UK industry. Companies across the UK economy are willing to accept slightly higher prices in the short term in exchange for less volatility and more clarity about the decarbonisation pathway.

Secondly, there is the EU CBAM. As of 1 January next year, the EU CBAM is going to kick in. It is going to have pretty serious consequences for some energy intensive industries, steel being almost at the top of the list. You are going to see a situation in which the UK is paying out about £800 million to European exchequers over the next Parliament for the pleasure of doing business with their largest trading partner for a pretty nonsensical reason, given that we already have an ETS and binding climate change targets. It would seem very strange for us not to want to address that problem, and linkage again solves it overnight. The moment you have a linkage agreement, the CBAM will not apply from the EU side, so it stops any of those problems either today or in the future for UK industry exporting into Europe.

Lord Frost: On the question of linkage and the question Baroness Ashton asked about a negative reason, is it not true that one possible reason not to link would be to keep policy freedom on our side as to how we run this aspect of net zero policy in future, either as regards objectives or as regards design of the scheme? Certainly, in the last Government, we did

for a time wonder whether there should be a carbon tax as opposed to an ETS. Would those not be reasons for not linking, if you wanted to keep that policy freedom in the future?

Silke Goldberg: That is a matter for the politicians to decide. However, I would offer the following legal and technical reasons as to why it might outweigh the idea to design a UK ETS special. First, when we refer to CBAM here, it is in relation to cost—effectively, regardless of how you design the future UK ETS. Let us say that the current Administration decide not to link and want to redesign the UK ETS in a very special British way. Regardless of that desire to design, CBAM will apply, and British businesses will need to comply with the EU ETS.

In addition to the cost implication and effectively importing the EU ETS carbon price into Britain, what you are then stuck with is the fact that British businesses will need to hire quite a lot of techies to cope with the sheer technical detail of CBAM. I have given legal advice in relation to CBAM to non-EU companies ever since the inception of its concept, and I can tell you that the technical regulations to CBAM are several hundred pages long. The calculations are fiendish. Most companies struggle with the implementation and, basically, the desire to have a British-made or special UK ETS would result in British companies having to suffer through those particular technical challenges, which would add endless cost and bureaucracy to British companies.

Adam Berman: I am happy to add a couple of things. First, Lord Frost, on the question of tax versus ETS: the UK would still maintain its right to implement taxes ad hoc as it would like to. As you saw, even when we were part of the EU, as the EU ETS was in operation, we introduced something called the Carbon Price Support, which was a standalone carbon tax for the power sector. There is absolutely no reason why the UK could not continue to do that, even in a linkage world.

Lord Frost: Then you are still stuck with the ETS? You can do a tax as well, but you cannot do it instead.

Adam Berman: Yes, you cannot do it instead. Ultimately, it has to come down to the CBAM. Let us be honest here, the purpose of the CBAM, from the EU's perspective—it did not have the UK in mind when it designed it—is to bring other countries around the world into its regulatory fold, particularly countries like India and China that either have a very nascent carbon price or no carbon price at all on anything they might export. China has pretty much half the world's steel exports, and a lot of that heads into the EU and undercuts European producers. That is the type of thing that it is looking to stop. We cannot wish away that problem, and the result is that UK businesses will be paying a lot of money into European coffers not collected by the Treasury on our side. It will also mean really substantial implications in Northern Ireland, where the EU CBAM covers essentially the island of Ireland, and it will cover Northern Ireland as well—we can go into the detail, but at least in a pretty substantive way. You will see exports from GB to Northern Ireland facing a new regulatory barrier as they move from the green lane to the red

lane. You will see exports from Northern Ireland into the Republic of Ireland and into the single market more broadly facing a new regulatory barrier for the Northern Irish economy.

From our perspective, if there was a very clear reason why that regulatory freedom was an advantage, if there was something that the UK Government clearly wanted to do differently in this area, a different vision for what carbon pricing might look like, it could well be that those things are a price worth paying. But at the moment, frankly, we have no sense that that is the situation.

The Chair: To keep our discussions organised, Lord Stirrup was going to ask about the CBAMs. Perhaps I could bring you in at this point, Lord Stirrup?

Q96 **Lord Stirrup:** Well I think most of my sandwiches have been consumed, because I was going to ask you about the implication of the EU's Carbon Border Adjustment Mechanism kicking in, but you have all spoken about it at some length. First, for the sake of completeness, are there any other implications you have not already covered? Secondly, what implications, if any, would the Commission's latest proposal for delay and simplification have for the UK? Thirdly—this is an issue we are going to explore in a later evidence session, but since we have you here—do you have any views or reflections on how the current US Administration might view the EU's proposed Carbon Border Adjustment Mechanism?

Matt Hinde: In terms of the first two questions, as I mentioned, our concern is that the CBAM creates both a tariff and a non-tariff barrier. That then reduces the business case for the existing interconnector fleet and increases curtailment of UK renewable resources. Interconnectors function from sending power from where it is abundant to where it is scarce. That damages the business case for future cross-border interconnection and, given the targets for the deployment of offshore wind in the North Sea, that would be extremely problematic. It increases curtailment, and it will increase emissions—so, effectively, it is a bit of a spiral of negativity.

We do not view the Commission's simplification measures as having any impact on UK-EU trade, unfortunately. They focus on de minimis rules and possible delays, but that will not make any fundamental difference to the UK-EU issue. Realistically, the only thing that does make a difference is price convergence, unless we are able to convince the EU to completely exempt the UK from electricity, which seems highly unlikely. Electricity is in the EU CBAM because of the flows coming in from Belarus, Kaliningrad, western Balkans and north Africa.

Silke Goldberg: I agree with that. Also, the tariff and non-tariff barrier that CBAM is introducing as a result will have an implication on supply security in GB as well as the island of Ireland. That would be an additional negative impact if, as a result of reduced electricity flow over interconnector cables, there was a question as to maintenance of supply security. On average—Matt can correct me, if I am wrong—on any given

day or settlement period, around 10% of supply comes from interconnectors in the overall mix. Sometimes day to day it is a little less or a little more, but roughly that is it. So, anything that negatively impacts the flow of electricity must by consequence have an impact on supply security.

In terms of simplification of the Omnibus package in relation to the European Union, I agree with Matt: I do not think it would have a material impact at all on the UK. The Omnibus package specifically relates to ESG-related reporting obligations, in particular under the reporting and due diligence sustainability directive. As a result, I do not see how that would have an impact. It might be that, on the whole, fewer companies are touched by the omnibus package, simply because the thresholds are raised, but structurally it makes no difference.

Adam Berman: It is worth saying that it is not really a delay; it is a buy now, pay later scheme. Companies importing into the EU will still have to pay the same amount; it is just slightly delayed as to when they get their invoice in. In practice, it does not make much of a difference. I will not add anything else on those issues, but there is one implication we have not touched on. The CBAM is not just a tax which attacks the difference between your carbon price and that of the EU; it also specifically penalises the electricity sector. That is because the EU has taken a slightly bizarre design and methodology, which looks at electrons coming from the UK to the EU, or from any third country into the EU, and says, "Well, we don't really know how to quantify how clean or dirty an electron is". That is because electricity is traded anonymously on exchanges, so it is almost impossible to know what is flying around where. With this methodology, you end up in a situation where clean home-grown energy from the UK, whether it be from a wind farm or a nuclear power station, which should not face a carbon price in the UK, will face a CBAM charge when it is exported into the EU. The default methodology will say that it is at least a bit dirty, that it is consistent with the average carbon intensity of our grid—roughly two-thirds of our electricity is from renewables or clean, and about one-third of it is fossil fuel based—so it will apply a carbon price based on that one-third to every single electron that comes from the UK to the EU.

Lord Stirrup: Do you have any thoughts on the third part of the question?

Adam Berman: On the US? That is a nice light question for the afternoon. The EU CBAM has always been highly controversial with key trading partners, and that has been the case for major economies like China, India and the US. Over the last few years, there have been various efforts under different US Administrations to figure out a way in which the European Commission might quantify carbon prices in the US, where they are not set federally but state by state, and where there are regulations that might be equal in practice to a carbon price. There have also been standalone agreements in sectors such as steel. As it currently stands, there is no solution on the table I can see that would alleviate the

political consequence of the EU CBAM once it kicks in. It will be quite significant. It seems that the EU has chosen to fight that battle. It is not for me to decide whether it is the right one, but it almost certainly will have political consequences.

The Chair: Are you clear when the EU CBAM is going to come into force? There has been some uncertainty as to which year it is going to apply in. Is there any clarity about that?

Matt Hinde: As things stand, it will apply from 1 January 2026, but the payments will be on a sliding scale up to 2034. That may change with the simplification proposal.

The Chair: Thank you very much. We might close the chapter on ETS and move on to other aspects. Could I turn to the Duke of Wellington first?

Q97 **Duke of Wellington:** I am not quite sure how these matters are connected, but Title VIII of the TCA is due to expire in the middle of next year. It can be extended into the following year. I am not quite clear in my mind—forgive me—what the implication is for all this if that title does expire. Could you explain it to those of us who are not as familiar with these matters as the three of you clearly are?

Matt Hinde: I will kick off on that one. If you look at what Title VIII covers, it is all very sensible: efficient use of interconnectors, gas interconnectors, security of supply co-operation, co-operation between transmission system operators. As National Grid, we are very happy to see the level of detail within the TCA energy title. Frankly, that is all good news from an industry perspective, both in terms of the functioning of the existing system, where there are things we need to fix, but also the future investment. Without the energy title in place, it adds a level of uncertainty into calculations over future investment but also in trading gas and electricity. You trade on a multi-annual basis. It will be more difficult to make those decisions if we do not know exactly what the legal framework is for that kind of trading.

Gas mechanisms within the TCA Title VIII are a good example of this, as to a great extent they replicate the situation prior to Brexit, and that has been very helpful in terms of the operation of the gas system. It is difficult to say exactly what the implications are, but from an industry perspective I doubt you would find anyone who did not want to see the continuation of the energy title, albeit in an adjusted form.

Duke of Wellington: If it is in our interest that it should be extended, what could or should the UK do to engineer circumstances under which it will be extended?

Matt Hinde: My understanding of the way the TCA is written is that the decision to extend can be made for two years and then on a regular annual basis. In an ideal world, you would have an agreement to keep a permanent position for it.

Duke of Wellington: Clearly, that would require the agreement of the EU.

Matt Hinde: Yes, but I have never seen any indication that the EU would not want to continue having rules for energy.

Silke Goldberg: From a legal perspective, a Title VIII running out is effectively the equivalent of a no-deal Brexit. If you recall, during the Brexit negotiations, there were all these deal scenarios or models. This would be a no-deal Brexit. It would mean no regulatory or institutional framework at all. There is bit of one at the moment. It would make co-ordination across the channel complicated for investment and carbon pricing. The reason why the gas side is slightly better at the moment is simply because on the European Union side the gas sector is less integrated than that of electricity. Overall, it would be more costly, more complicated and more administratively cumbersome.

Adam Berman: There are a couple of other implications. First, the UK would fall out of the North Seas Energy Cooperation, the organisation that we partially rejoined through an MoU in 2022, which explicitly states that it only applies when the energy title is in place. The bigger issue would be that you would lose clarity on improved electricity trading arrangements. Electricity trading arrangements in the TCA are pretty substandard. They are consistent with the time that was available for those negotiations and the political red lines, but the system costs British consumers a few hundred million pounds a year, depending on exactly where electricity prices are. It varies. A few hundred million pounds here or there all adds up to real money in Westminster terms at the end of the day. For a country that is facing very high energy prices, it seems pretty reasonable to look at mechanisms like this that could reduce them.

The bigger political issue is that the energy title is linked to fisheries. If we get to the situation next year in which, for whatever reason, there is no will to continue the energy discussion, you will end up in quite unhelpful political territory around fisheries. There are no easy solutions there.

To your question about what needs to happen in order to get movement on this, at leaders' level, there has to be a sense that something must be unblocked, either in the May summit or in any discussions that happen after it. It is not just that the energy title could expire; it is also that even with the mechanisms within the energy title for more efficient electricity trading—the so-called Multi-Regional Loose Volume Coupling, which is a bit of a mouthful—that aspiration has long since not been reached. There were commitments to try to make this mechanism work, and that has not happened. I worry that we will end up in a situation in which the energy title suddenly becomes very political and we are arguing not just to try to improve our trading relationship but to maintain the quite substandard mechanism contained within the current title.

The Chair: On cue, let us turn to Lord Frost and the electricity trading arrangements.

Q98 Lord Frost: As it is the first time I have spoken formally, and as we are still under the old code of conduct, I should declare an unpaid interest as a non-exec director of Net Zero Watch. On the issue of electricity trading, which has come up on a couple of occasions already, there was a legal obligation, a shall word, to get these things in place during 2022. We know what that amounts to, and it has not happened. Would you like speculate as to why it has taken so long and is still not in place? Is it because of technical complexity, or is there more to it?

Adam Berman: It is because it is fundamentally undoable. Both sides tried in good faith to push toward a solution that might work through those TCA negotiations. I am sure it was perfectly reasonable at the time, but the problem is the TCA negotiations were quite a long time ago now in terms of electricity markets. A lot has changed in the energy sector. We now look at a mechanism like that, and we know that, frankly, it is not fit for purpose. Even the MRLVC—the ambition for what the market might look like—is not fit for purpose in a world in which you have these highly complex, highly efficient structures being built out in the North Sea. These kinds of hybrid interconnectors, where you have a Danish wind farm that is connected both to the UK and to other countries, need a mechanism whereby you do not have someone sitting at the terminal dispatching electricity. It needs highly efficient trading mechanisms, and MRLVC just does not offer that. It is a frustration that the European Commission has not been able to implement this, but we need to be realistic about the fact that it may not be achievable, and we need to look elsewhere for a mechanism that might work better.

Silke Goldberg: If you look at the minutes of the Specialised Committee on Energy, there is a trace or a red line through them which effectively says, “The parties instruct the TSOs to give more information”. It was almost as if matters could somehow be resolved by a desire to have more information. I agree with Adam: it is technically nigh on impossible to have flow-based coupling, in particular the novel type that was instigated or proposed in the TCA, coupled with a whole region which works on price-based coupling. I would direct the committee also to the October open letter from a number of electricity companies—it was published in the *FT*—which confirmed that the setup as a whole does not work. Overwhelmingly, there is a technical issue.

Also, electricity markets both in the EU and on the GB side—Ireland is separate here for these purposes—have moved on a fair bit. In the European Union, the electricity market reform and the introduction of an offshore bidding zone in particular will affect the North Sea—the wind farms and the interconnectedness of those wind farms in a future meshed to North Sea. We have not discussed this but, on the GB side, we have REMA, an ongoing electricity market reform which was started under the last Administration and continues under the current one. I am a lawyer, not an economist, but in terms of the Reform of Electricity Market Arrangements, together with what is going on in the European Union in terms of the institutional arrangements and their technical and legal architecture, I do not see how you can marry up volume flow coupling

with price coupling and future-proof both. A completely new technical solution needs to be found.

Matt Hinde: I agree with all of that. The UK TSOs have done what they were instructed to do in terms of working through cost-benefit analysis and attempted to draw together the technical recommendations on this. But in essence, the implicit coupling, as market coupling is known, is effectively a one-click purchase, where you purchase commodity, transport route and transport in one transaction. With explicit trading, we now do all those separately. MRLVC attempts to construct a UK calculation and then bolt it into the hyper-efficient EUPHEMIA algorithm that the EU uses. That in itself is inefficient but, having worked on this for the last couple of years, the experts on the EU TSO side are unanimous that they do not think this will work, and that view is shared by the experts on the UK side.

Q99 **Lord Frost:** What happens if we cannot get this in place? Do the current arrangements just persist, or does it mean there needs to be a new negotiation to agree something else? Would you say that better trading arrangements are potentially consistent with the TCA energy chapter in place?

Silke Goldberg: From a legal perspective, there are two possibilities. First, the Specialised Committee on Energy has certain powers that it could instigate and say, "Actually, let's go back to the drawing board; let's find something that works". That would be within the realm of competency of the Specialised Committee on Energy. However, perhaps as part of the May summit—it is ultimately a bilateral discussion—as part of the reshaping or the renegotiation of Title VIII prior to its expiration in June 2026, a better and more durable solution could be mandated or found at a political level, which can then be implemented in good time for 1 July 2026, for example. I said at the very beginning that the TCA had only barely been implemented. Multi-Regional Loose Volume Coupling is a key area from the energy perspective where the implementation has effectively failed and has not been given an "effet utile", as you might say in international law.

Matt Hinde: The joint UK-EU industry view is that we want to see a return to a form of price coupling. As Silke pointed out, flow-based coupling does not really work. Price coupling does; it is highly efficient and saves tens of billions per annum across the continent. The joint industry view is that we support some form of contractual arrangement for an extended service from the Single Day-Ahead Coupling Mechanism, for example. However, that is done from a negotiating perspective. As I say, it is the considered view of the industry that price coupling is the only technical solution here, and if we do not do that, it will continue to cost a lot of money.

Adam Berman: It is probably worth saying that cost is not static; it increase over time as the UK becomes a net electricity exporter, particularly in the latter part of the 2020s. It is going to move from a few hundred million a year to quite a lot more over time. When you reach the

2030s, it is going to be into billions per Parliament. It is also worth being realistic about the fact that it is pretty critical to have a more efficient mechanism in place for the hybrid North Sea infrastructure. You will see a hit to growth from projects that are unlikely to move forward without that arrangement in place.

Certainly, from the UK side, there is an incentive to find a solution that works. The challenge we face is that the political red lines, at least of the TCA negotiations, ended up with the explicit trading that we have today, which is not ideal, and with this ambition for a MRLVC solution that was probably never workable. Indeed, we tried, and it is not. So, what else can we do within the political red lines that seem largely to be unchanged, at least in terms of customs union and single market? That is where we need the leaders to unlock better conversation, because there are definitely mechanisms—industry has talked about price coupling—that would enable much better and much more efficient trading, but it will involve quite a frank discussion with the Commission and probably more goodwill than we have had previously on this topic from both sides. It would need politicians to unlock that and, to date, that has not happened.

The Chair: It has been a very interesting series of discussions on ETS, CBAM and electricity market trading. We are becoming experts on a subject that we were not at the outset of this session. I have two more questions that we wanted to put you. I am going to offer the opportunity to those members who have not had a chance to ask a question—first to Baroness Nicholson, on the EU-Switzerland model.

Q100 Baroness Nicholson of Winterbourne: It is intriguing that whenever we have difficulty with the EU—now and earlier when we were a member—we tend to look to Switzerland for the perfect solution. Of course, it never happens, because it is not actually there. Switzerland has a totally different approach to the EU than we do, whether we are in or out. However, since we have already discussed the Swiss situation, is there anything left that you feel as a panel has not been raised that you would like the Chair to consider?

Matt Hinde: In terms of the Swiss deal, it is worth pointing out that negotiations were far more complex on the issue of linkage. They were interrupted by the referendum on freedom of movement in Switzerland. In the first place, the Swiss had to develop their own ETS. So, the framework conditions for a UK-EU ETS linkage negotiation are quite different. Some commentators have said it could take multiple years. I am not sure that I share that view. It is quite possible to do it relatively quickly.

Silke Goldberg: As you say, the approach of Switzerland to the European Union is quite different. The sectoral arrangements that are in place with Switzerland have led to a level of difficulty precisely because Switzerland does not have an institutional framework agreement, or did not for a very long time, so much so that the European Union eventually signalled no more sectoral arrangements prior to entrance into an institutional framework agreement. To some extent, the UK is in a better

position here, because the TCA is a kind of institutional framework agreement. There are different political views as to whether it is effective in terms of the institutional framework that it offers; however, it is there. Therefore, the difficulty compared to Switzerland is not there. Switzerland might have gone deeper in terms of the co-operation in the sectoral arrangements, but at least at the institutional level the approach should be easier.

Q101 Baroness Winterton of Doncaster: Earlier, you touched on the North Seas Energy Cooperation. Is there anything you want to add on the impact of the memorandum of understanding and how much added value it brings?

Matt Hinde: It is really important that we are part of it. Before we had the memorandum of understanding, there were very limited mechanisms for any form of dialogue on energy. The nature of the specialised committees means that, as far as I can see, they do not provide a forum for more expansive discussions on policy, whereas the North Sea Energy Cooperation mechanism does do that, at least theoretically. However, one constraint is that the UK, as a third country, is only allowed to take part in certain NSEC discussions. As far as I understand, the constraint is not being able to take part in discussions on future policy, as a third country. That is substantially suboptimal, not least because, aside from the issues around trading and CBAM and other matters, there is a set of very technical issues around cost-benefit sharing in the North Sea, supply chain development and wider market frameworks that the UK, as a substantial contributor to the renewable energy potential of North Sea, needs to be part of. A situation where we are not part of those discussions, and where there is no alternative mechanism for them, is very suboptimal. We want to renegotiate the MoU to ensure that the UK is a full part of the system.

Adam Berman: NSEC is a really important institution. With so much energy infrastructure being built in the North Seas—not just the North Sea but other seas—it makes sense to talk to others about what and where you are building in order to do so efficiently. It brings down costs; it is as simple as that. It makes sure you do not duplicate and that you can connect things when it is in the best interests of both sides. It makes sure that you can plan what to do with this massive shared resource, which will drive the energy needs of northern Europe for the next generation.

The challenge has been that, although it is not formally an EU institution, it is co-chaired by the European Commission, whose approach to date has been that the UK cannot join as a full partner. It can have an MoU for partial access and can join some discussions and most of the ministerial and heads of state matters, but there are limitations. As Matt says, the UK cannot talk about anything related to the future, which seems slightly frustrating when the whole point of this institution is to talk about and plan out the future.

Again, this is another issue on which we probably need a bit of high-level political cover to show the European side how much importance the UK attaches to this, that not only do we want to get more involved, but we also want to roll up our sleeves. That is borne out by the Department for Energy Security and Net Zero, which has been a really active participant since the MoU and wants to go even further in engaging with that institution. It has huge plans for the use of the North Sea, not just through offshore wind—floating and fixed bottom—but also through CCUS and hydrogen. We have huge potential there, but that comes from high levels of co-operation. Again, where there is a political will, there is probably a way, perhaps not formally as a full partner—it may well be that is unmovable—but I am sure there are avenues for slightly more engagement than the UK currently has. Again, it would require a little political leeway to get there.

Baroness Winterton of Doncaster: I was very interested in what you said earlier about carbon capture and storage, and you have just touched on it again. It seems that would be a powerful way of making that happen more effectively, linked with what you said earlier about ETS, so the two with regard to carbon capture and storage come together quite neatly there. Can you make that a bit more real in terms of carbon capture and storage? What are advantages of bringing it all more closely together?

Adam Berman: This may sound like a strange statement, but we know what is going to be in the North Sea in the next generation. We know where the wind turbines, the carbon capture and storage infrastructure are going to go. Most of the North Sea is highly planned now. However, you already see different technologies butt heads against each other because, frankly, there is a limited amount of space once you get into the relevant seabed. Today, the conversation might be about oil and gas versus wind, but in the future it is about carbon capture and storage versus wind or hydrogen or interconnectors or anything else. It is a finite resource, and we need to plan it accordingly.

On the UK side, we have about half of northern Europe's carbon sequestration capacity, so essentially lots of depleted oil and gas wells where you could take carbon and inject it into the ground, put a little stopper on the top and keep it in place to ensure that it does not cause climate change. That is a huge industrial possibility of not just importing carbon from Europe and injecting it into northern British waters but also for industrial heartlands in the UK, which face challenging decarbonization and where, looking at different carbon capture clusters in the country, it is often the only solution to ensure that their industry can stay competitive.

It is a real opportunity for the UK, but in order to get the most out of it, we need to work pretty closely with European partners on where we are going to site things, what the arrangements are going to be, what it means in terms of transportation and storage and what the legal underpinning of all this is. This is pretty new territory. The carbon capture

and storage industry is not at scale yet, but it will be quite quickly. With NSEC particularly at the moment, we see a set of northern European countries that largely want to talk about renewables. Some want to talk about renewables plus hydrogen; very few want to talk about carbon capture and storage. If we want to get the most out of that economic opportunity, we have to drive it at NSEC, and at the moment that is not happening.

Baroness Winterton of Doncaster: Is that not happening because Ministers are not pursuing it? Or does the MoU itself not allow—

Adam Berman: The MoU does not allow us to engage in those discussions.

Silke Goldberg: The TCA provides for co-operation in relation to CCUS; however it only touches upon it very briefly. Again, in looking towards the future, it is important to future-proof Title VIII as part of the discussions and the extension of its arrangements. The UK is probably a European leader—in the wider sense of European—when it comes to CCUS policy and business models for industry to participate in, so it has something to offer in those discussions in capacity, in the physical sense but also in in terms of the legal, technical and commercial capacity. That would be important here.

Between the European Union and the UK, in addition to the carbon capture and storage opportunities, there is a target of 400 gigawatts of installed offshore wind by 2030 or 2035—sometimes the numbers are slightly different. They will be effectively installed and used to the maximum capacity only if the relevant space around them is planned. For that, we need legal certainty; without that, nobody is going to invest in it. Therefore, having foreseeability and legal certainty for this plan, to direct investment accordingly, is one of the most important elements for the success of net zero for the UK but also for the European Union. I would say the interests are absolutely aligned there.

Matt Hinde: All this is very much the view of both UK and EU industry. Everything we do in this space is about mutual benefit. Frankly, the European Commission is not going to listen to a word I say if I just represent UK interests. So, we have been very careful to ensure that this is a joint view from the whole industry. Linked to the CCUS point, we have not really touched on it today, but there is a similar issue around renewable gas, where we need to take into account compatible regulations over things like blending of hydrogen into the natural gas mix—otherwise we may be presented with inadvertent trade barriers.

The Chair: Thank you; that is all absolutely fascinating. I want to ask two members, Baroness Suttie and Lord Whitty, who have not had the chance to put a question whether they want to follow anything up.

Q102 **Lord Whitty:** A question was allocated to me in relation to the CBAM, which I do not think we really touched on, in terms of the British Government's intention to introduce their own CBAM in January 2027.

What implications do you think that has for relationships, since we do not know what the British one is going to look like, let alone the European one?

Lord Stirrup: Could I link my question to that?

The Chair: Yes, please do, Lord Stirrup.

Lord Stirrup: It is very much connected. I seek a point of clarification again on the EU's Carbon Border Adjustment Mechanism. If we have a linked emission trading scheme with the EU, we avoid the damaging consequences, but does that mean we then must have the same Carbon Border Adjustment Mechanism as the EU, or one that is broadly similar, with regard to non-European countries? In other words, if the EU's CBAM resulted in an even more damaging trade war with America, would we be automatically drawn in if we had linked ETS?

The Chair: Can we have an answer those two joint questions, and then we will wrap it up, given the time?

Adam Berman: This is an open conversation. It is a discussion that has not yet happened. I do not think there will be any legal obligation for the UK to implement a CBAM were it to want to pursue linkage with the EU. That is primarily because of rules of origin. Just because something has arrived in the UK does not mean that it is a backdoor into the single market. That being said, UK Governments—not just the current one but the previous Conservative one as well—moved independently of anything to do with the EU CBAM to implement their own, because they were worried about the competitiveness of their industries. If you have a carbon price and other related regulations which tick up over time and then more of a burden on industry—that is the point of them; they are supposed to incentivise industry to decarbonize—you do not want to be undercut by cheap imports from abroad which have not faced a carbon price. A UK CBAM would solve that problem, and that would happen regardless of linkage with the EU.

To the question about a UK CBAM more broadly, there is an issue in terms of timeline. As far as I gather, that is because HMRC said, "We cannot get this ready until the beginning of 2027". Due to the way the EU CBAM is structured, it may not be a massive issue for industry, but some industries—I imagine steel will be at the top of the list—will be very upset about a possibility of a year of dumping of, let us say, Chinese steel, which is redirected from the EU because it suddenly has to face the CBAM charge and ends up heading to the UK. But that would only happen for one year in any case, and there are probably mitigating measures we could take. I do not think it would be the case, but even if the EU insisted that there was also dynamic alignment for the UK CBAM during the linkage negotiations, I do not see why it would be an issue. As far as I know, there are only one or two sectors which the UK CBAM covers which the EU's does not.

Matt Hinde: There is only one, I think.

Adam Berman: So there is only one. At the very least, it would never stop the UK from being more ambitious, but it would probably stop it being less ambitious with its CBAM. I do not think that is going to happen, but certainly if we got into a discussion around that, the UK would have fair reason to say, "We are already doing this anyway; let's just make sure we align on the mechanism itself and how it works". At the moment, the designs are slightly different on both sides, but that should be doable.

Matt Hinde: The difference between the two is primarily electricity. The reason for that is we are only connected to the EU, which has net zero targets, carbon pricing, et cetera. There is no risk of carbon leakage when it comes to electricity trading with the EU from a UK perspective. From the EU's perspective, you have connections to north Africa, western Balkans and Belarus, and that is where you have a slightly different situation.

Silke Goldberg: From a legal perspective, the EU ETS and CBAM are very distinct legal instruments. The UK ETS and UK's CBAM would also be distinct legal instruments. There is not necessarily an inevitable consequence that means that you would also need to adopt the EU CBAM were you to link the UK ETS and the EU ETS. There are quite strong policy reasons why you might wish to do so in terms of duplication. I described the technical implementation issues that pertain to CBAM. Also, depending on the design of the UK CBAM, there could be scenarios in which goods from third countries come to the UK and are then passed on to the EU. In those circumstances, of effectively a sequential export or import depending on your perspective, the European Union CBAM would look back to the origin, then check whether that particular good had been covered by a UK ETS or whether it would need to go all the way back. However, that would not necessarily be a UK issue; it would be an issue for the jurisdiction of origin of that particular import into the European Union. There are scenarios which can get horribly complicated in CBAM, but perhaps the main point to take away is that the legal instruments are quite distinct.

The Chair: Thank you very much indeed. Does anybody have anything else? No. In that case, we have done a very good round of some very complex issues, and you have done a tremendous job in explaining them and the implications to us. We are very grateful for that. We have finished before 5 pm, so a warm thank you on behalf of the whole committee.