# Select Committee on the European Union

## Energy and Environment Sub-Committee

## Corrected oral evidence: Brexit: Environment and Climate Change

Wednesday 9 November 2016

10.30 am

Watch the meeting

Members present: Lord Teverson (The Chairman); Viscount Hanworth; Lord Krebs; Duke of Montrose; Lord Rooker; Lord Selkirk of Douglas, Lord Trees; Viscount Ullswater and Baroness Wilcox.

Evidence Session No. 3 Heard in Public Questions 46 - 65

### Witnesses

I. Steve Elliott, CEO, Chemical Industries Association; Finella Elliott, Climate and Environment Policy Adviser EEF; Dan Lewis, Infrastructure Policy Adviser, Institute of Directors.

II. Michael Jacobs, Director, IPPR; Dr Doug Parr, Chief Scientist, Greenpeace.

### Examination of witnesses

Steve Elliott, Finella Elliott and Dan Lewis.

Q46 **The Chairman:** Can I welcome our witnesses to the inquiry we are undertaking on Brexit and the environment? This is the third of our sessions, and we are looking this time particularly at the industrial and business aspects of environmental policy and Brexit. Can I remind our witnesses that this is clearly and obviously an open and public session? It is being webcast and transcript is being taken. You will have a copy of that transcript and the opportunity to change it if you think that anything has been recorded incorrectly. I ask Members, if they have any interests, to remember to declare them. It is probably not completely relevant today, but in case we mention marine I declare that I am a board member of the Marine Management Organisation. Could I ask that each of the witnesses introduce themselves for our listeners and viewers? Mr Lewis, perhaps I could start with you, and then we will work across.

***Dan Lewis:*** My name is Dan Lewis. I am from the Institute of Directors. My brief covers infrastructure and energy policy.

***Finella Elliott:*** My name is Finella Elliott. I am from EEF, the manufacturers' organisation, and I would like to take this opportunity to thank you for inviting me to your Committee today. My brief is the climate and environment area.

***Steve Elliott:*** Good morning everybody. My name is Steve Elliott—no relation. I work with the other CIA, the Chemical Industries Association.

Q47 **The Chairman:** Thank you all. Could I start with a more general question? From a business perspective, what should the UK's future relationship with the EU look like with regard to environment and climate change issues? It would probably be useful if each of you started off with that. Perhaps we can start from the other end. Steve Elliott, would you like to start us off on that one?

***Steve Elliott:*** Thank you very much, Lord Teverson. Maybe just a word about why this whole subject matter is so important to us for members of the Committee. The CIA represents the chemical and pharmaceutical manufacturing industry of the UK. If you put those two communities together, that is the UK's largest export earner, posting something like a £4 billion to £5 billion surplus every year. We are a key foundation industry. Anything from the plastic that forms the cups in front of you, the active ingredient in a household detergent and the material and the polymer that makes the new £5 note is all chemistry and all comes from UK chemical companies.

The particular reason why this is important for us is that we are very trade intensive as a sector, as the earlier statistics reveal. Some 60% of all chemical exports go to the continent and 75% of chemical imports come from the continent. When we surveyed our members we found that we were the one constituency that registered a zero appetite for leaving, with those credentials in mind. As a key customer industry, just to give an example, there is always something like £2,000 worth of chemistry in an automobile—another sector impacted by this. That is a bit of background.

My response to the first question is a plea that we stay engaged for the next two years. We have not left. With regard to some of the policy issues that we face as an industry, staying the course over the next two years will be incredibly important for us, whether those policy issues relate to the industrial emissions directive, endocrine disrupters or REACH. All of these issues we see the UK, as a Government and as a regulatory community, approaching in a very risk-based, pragmatic and proportionate way.

If we look at where the endocrine disrupter issue is at the moment—I am exaggerating a little, but not much—it is 27 countries versus one in the way this is being approached, with the one being the UK. If that one voice is lost, we could end up with every substance categorised as either a known endocrine disrupter or a suspected endocrine disrupter. It is as crude as that. That is one example. I think it is about staying the course over the next couple of years on a number of policy fronts, because we have a very strong reputation for risk-based proportionate and pragmatic regulation.

Any differences in compliance requirements could be a financial burden on exporters and importers. In one area, there is an opportunity to balance the Brexit costs by reducing some of the climate change policy-related costs alongside environment. We may expand on that in subsequent questions. I hope that is helpful.

**The Chairman:** Finella Elliott, would you like to follow on?

***Finella Elliott:*** We would completely concur with everything that Steve has said. EEF members want to maintain unfettered access to the single market. I think that 45% of UK exports go to the EU, and although they are perhaps not as great as the chemical industries, around 52% of manufacturing exports go to the EU, so it is a real key ask of our members who we have spoken to so far.

Another thing that our members are talking to us about is trying to prevent as much disruption to trade as possible during the negotiations. In the discussions we have had, we cannot see a scenario where in order to maintain access to the single market we will not have to continue complying in some way with climate and environment policy. Dan, I do not know whether you have anything in addition.

***Dan Lewis:*** We have 34,000 members. They are all individual; 70% of them work for SMEs. We surveyed them before the Brexit vote; the split was roughly that 60% wanted to stay in and 30% wanted to leave. We did not, as an organisation, take a position on that vote. We saw no need to split our own membership. Yes, of course, access is beneficial. Common rules or even fairly shared rules are an enabler to business. Having said that, we will see how this is going to proceed and whether, if there is a deal, it is a good deal, or whether, if there is no deal, it is a bad deal. Then there are all the other variables: what we chose to do next as a country and what other countries choose to do with us.

**The Chairman:** That has started us off generally. Lord Krebs, do you want to take us on to some of these issues?

Q48 **Q46 Lord Krebs:** I declare an interest as a member of the climate change committee and the chair of the adaptation sub-committee of the climate change committee.

My question builds on the first one, which is to ask each of you to tell us a bit about the potential benefits to your industry/business sectors of aligning post-Brexit UK environmental policies with the EU. Conversely, what would the benefits be of having different environmental standards to the EU? We are interested in whether you think that after Brexit we should continue to match whatever the EU does, or go our own way. Also, perhaps as a supplementary, do you think that the view on that would vary between big and small companies? I do not know whether, Steve Elliott, you would like to kick off on that one.

***Steve Elliott:*** That is a big question. If I may, Lord Krebs, I will split it into looking at some of the product-related issues and plant and process-related issues that we face and then move on to climate change.

The first thing to say—and this is from a capital-intensive business perspective, where investment cycles obviously tend to be that much longer than for fast-moving consumer goods—it is about stability in the short term and looking at the business development benefits of aligning the UK with environmental policy. That is even more so where we are EU-dependent, given those import and export statistics. I should also have mentioned at the outset that three-quarters of our membership is headquartered somewhere outside the UK, and a lot of those headquarters are continental European, so there are a number of good reasons for aligning ourselves going forward.

In the product area, one thing to consider is whether, when the UK goes it alone, it will have sufficient resource and skill—this is probably applicable to many areas—to govern, for example, certain regulations that we face. The biggest, because it is the largest piece of environmental legislation, is REACH. That is currently managed by an EU body that is headquartered out of Finland, Helsinki, and supported by national experts from 28 member states. There will be a big question about alignment, but how do we manage that resource-wise and skill-wise from the UK?

**The Chairman:** What is the name of that body?

***Steve Elliott:*** It is called the ECHA, the European CHemicals Agency, and it works out of Helsinki.

**Lord Krebs:** It is an official EU institution?

***Steve Elliott:*** It is.

**The Chairman:** Do non-EU member states live in that office?

***Steve Elliott:*** No. It is a European regulation. There will be lots of technical experts sitting there. There may be some nationalities providing expertise that is not from the EU, but essentially this is a regulation that is determined by and driven for regulation within all those trading in and out of the European Union.

**The Chairman:** That is fine, thank you.

***Steve Elliott:*** On the processes, we see no real benefit in adopting something that is different from environment permitting. The concept of what we know as Best Available Techniques reference documents—

BREFs—is widely supported throughout the continent of Europe, including the UK. To try to look at, adapt and adopt alternatives would be very complex and incredibly resource-intensive. Our question about BREFs is how we influence at the start and how we implement at the end at a national level. That is another area where we would see continued alignment with the European Union. Health and safety regimes are perhaps slightly beyond the remit of the Committee, but I would say that we do not see very much need for change to health and safety regimes from what we currently see.

In the area of climate change, on the one hand, and the benefit of sticking with the European Union emissions trading regime—phase 4 comes towards us in 2020—it is increasingly recognised internationally by the investment community tracking the performance of the emissions reduction and environmental responsibility of companies that, and we would say this, if it was delivered in a cost-effective way we would see sense in it continuing. As it currently stands, we do not believe that the design of the phase that is coming is business-sensitive enough, but if it took on board those concerns we could see continuity there. There are others, but I will leave it there.

***Dan Lewis:*** One specific example is the measuring instruments directive, which came into force at the end of last month and lowered the accuracy requirement for meters to measure gas and electricity from +/-2%, which was the British standard, to +/-3%. It is not in the consumer interest to do that, especially if we have smart meters coming in where you will have in effect spike pricing at peak times with time-of-day pricing. You compound that. That is one area where there would be a very useful divergence or shift of emphasis towards more accuracy if we were to choose to do that.

Air pollution is another area that we could look at again. I do not think that the shift towards diesel, which has been driven by sections of the European motor car industry, has been an environmental success. Local air quality has become a big issue, particularly in London and our metropolitan areas, so that is another area that we could look at again, certainly.

***Finella Elliott:*** I would only add a couple of extra points, the first being that there are obviously, as Steve has said, the regulatory stability benefits of grandfathering the existing environmental legislation in the short term. It is something that our members are calling for.

On the question of large and small companies and the differentiation between SMEs, size is not perhaps as important for manufacturers. We are hearing from our members that their trade profile is far more important. Some 84% of our members trade either directly or indirectly with the EU, so at least in the short term it seems far more beneficial to them to be closely aligned with the EU.

**Lord Krebs:** I have a brief follow-up question for Dan Lewis about air quality. I understand what you are saying—that it turns out that diesels may have been a bad thing in terms of PM2.5—but as I understand it, and from the other evidence that we have taken in this inquiry, the pressure to improve air quality standards in our towns and cities is, to a very large degree, driven by the threat of infraction proceedings and fines from the Commission. In that sense, therefore, when we leave the EU are we not going to face the difficulty that we will have no one to enforce higher standards?

***Dan Lewis:*** I think there is a strong case for having stronger regulators right across the board if, come day one of Brexit, the regulators at the European level, or at least the actions, are not there to oversee and to push. You could look at other areas too, such as cleaning up beaches and a number of other areas. It seems to me that diesel is a particularly tangible issue insofar as we have had such a huge shift in the national vehicle fleet from something like 10% of vehicles using diesel to now just over 50%. This is odd, because most of our diesel is also imported, quite a lot of it from Russia, too. I think there would be a lot of public good will towards a shift towards cleaner air, and I think that vehicles are going to get cleaner anyway. Although vehicles using diesel produce fewer $CO_2$ emissions per mile, the data from the RAC shows that people drive more miles with diesel, so it has not been a success, even in that respect.

**The Chairman:** I should also declare an interest in that I am a director of a company called KCS, which uses chemicals and exports to the EU.

Q49 **Lord Rooker:** Good morning. In a way, my question is a follow-up question, because it is almost an extension of the previous question. I should add as an aside that I drive a diesel car, and I bought my first diesel about six or seven years ago on government advice that diesel was cleaner, or whatever. There was also a financial advantage at the pump, if I remember rightly. It may be older diesels that cause the problem. I want to almost extend that. Would it be a good idea if the UK made the context of environmental legislation more UK-specific? I will give you an example: the Common Agricultural Policy does nothing about, say, methane emissions. We give farmers direct payments for the land they have, but we do nothing about tying that to methane emissions and other emissions from animals. We could, if we were on our own, do something about that as an air quality issue. Do you have any examples of where we could be more UK-specific, outside where we are now, without causing a problem with ongoing trade?

***Steve Elliott:*** I can think of a couple of examples of where some of our members are reflecting the sorts of views your question suggests, Lord Rooker. For example, our businesses have complied with the demands of REACH from its infancy, and there is another deadline to come in 2018. Even beyond that, once the UK has left the European Union, for all our trade within and without the European Union we will continue to comply with REACH. If you are a UK-based chemical business whose trade is perhaps much more with other parts of the world, such as the United States and Switzerland, there is a feeling among that community and our membership that there is some scope for REACH-lite, although those are not quite the right words. By that I mean something that they would view as a regime that is a bit more risk-based, pragmatic and proportionate than the demands that REACH puts upon their trade with the European Union. Having said that, you would have to balance the questions earlier on resource and competence to run in effect two inspection or regulatory regimes in the UK to allow that to happen, as well as the ongoing relationship with the European Union. That is one area.

The other area may be climate change. The removal of state-aid requirements could allow us to simplify the UK policy mix in the climate change area. Currently, our members who are energy-intensive have partial relief from renewables, partial relief from the European Union Emissions Trading Scheme, partial relief from the carbon price floor mechanism and partial relief from the climate change levy. That is very nice but incredibly bureaucratic. Does the sum of the parts equal the whole that we might achieve if we followed the line of your questioning?

**The Chairman:** In order to understand this, do your member companies that currently have manufacturing plants or are exporting from the UK to non-EU members tend to have production lines that are of a lesser standard or a different standard to REACH in order to go into those markets? Do you tend pragmatically to be REACH-compliant in a way that on the whole, because of equivalence, is accepted elsewhere? Could you take us through that simply?

***Steve Elliott:*** It is not in the interests of, say, a UK-domiciled or a German-domiciled company to invest in China or Brazil with different standards from those that they would typically design and build to. From a reputation, investment and performance point of view there is no value in doing that. That is not to say that the environment in which they are working would be at the same level, but that is the first thing to say. Having said what I said about the United States having a slightly different testing regime from REACH, on the other side of that there are many countries and regions of the world that are now following the example which the European Union has set with REACH. South Korea is an example, and others are following.

This is not a drive to the lowest common denominator; this is not businesses looking for a much more environmentally substandard opportunity, but in many cases it is about the extent to which we really are adopting a risk-based, proportionate, pragmatic approach. Does that help?

Q50 **Viscount Hanworth:** Can you briefly tell us how the REACH standards are monitored and enforced?

***Steve Elliott:*** REACH—registration, evaluation, authorisation and restriction of chemicals—is the acronym. The enforcement of REACH is done at a national level, in our case through the Health and Safety Executive, to ensure that companies are responding to registering their substances. You have to register to be able to place on the market. Then there is an analysis that may take you all the way through that acronym. You might register a substance that might need evaluation, might need authorisation because of its particular properties or exposure, and might even need a restriction for a particular use. That is the route that it takes, and there have been three timelines, if you like, for compliance, with the final one coming in 2018. They are linked to the tonnage bands. Anybody producing or importing 1,000 tonnes will need to comply with REACH by 2018, and the bigger tonnage band started earlier in the process.

**Viscount Hanworth:** Does the EU have a strong oversight of this process?

***Steve Elliott:*** Yes, and the oversight for consistency of application and enforcement sits with the central agency in Finland.

**Viscount Hanworth:** Are the enforcers and monitors numerous on the ground?

***Steve Elliott:*** That is a very good question. I guess that with many aspects of regulation there will be easy entry points in parts of the continent for imports that may not comply. That is anecdotal. I hear that from certain countries.

**Lord Rooker:** They do audit visits as well?

***Steve Elliott:*** They do audit visits, yes. I would say that the UK Health and Safety Executive, in our case, operates a very well-informed, targeted risk-based approach to enforcement.

**The Chairman:** Following on from Viscount Hanworth and to clarify this, when we are no longer in the European Union, or for a country that is currently not in the European Union—we have the Health and Safety Executive, which acts as that enforcer, has been approved and is a national authority—how does it work then?

***Steve Elliott:*** If we were to leave—and this remains to be worked out—all our import and export trade with the continent would continue to have to respond to the requirements of REACH. The question then is whether we would need to set up our own agency, if you like.

**The Chairman:** Before this agreement comes in, how does Canada, say, do it now?

***Finella Elliott:*** People act in the UK only as representatives, so they will register substances on behalf of the country.

***Steve Elliott:*** For importers, yes. If your question is about how you get your product into the marketplace from somewhere else, the answer is yes, through representatives.

***Finella Elliott:*** Who will register the substance for you.

**The Chairman:** Thank you.

Q51 **Viscount Ullswater:** We keep talking about not disrupting trade, but we have not mentioned tariffs. If we have what is called a hard Brexit, would your association in particular suddenly be faced with a lot of tariffs by exporting to the continent?

**The Chairman:** Forgive me, Viscount Ullswater; we are not doing that because that is the economic side.

**Viscount Ullswater:** We need an informed debate.

***Steve Elliott:*** Very briefly, on tariffs, if we were to move to a WTO status, for example, that would typically, for the chemical sector, imply tariffs of either 5.5% or 6.5%. It is sometimes twice that—on the imported raw material and then the re-export out. Our industry's biggest customer is itself, so there is the complexity of supply chains. That is if we went to WTO.

***Dan Lewis:*** This is a very interesting area, and I have been doing some work on tariffs. We currently have 12,651 tariffs that we have to comply with as members of the European single market, which we levy on imports from outside of the single market. Having said that, it is interesting that countries such as Norway, which have full access but are not members of the EU, are free to levy their own tariffs or not, so they only have about 1,000. Of course, if we had a completely hard Brexit then we would still be free to impose tariffs or not. It is a very live area and we will certainly need to look at all these tariffs and see how much they are in the strategic interests of this country or not. They raise revenue of roughly £3 billion at the moment, which is part of the membership fee.

Q52 **Lord Selkirk of Douglas:** May I ask a question about the costs of administration and bureaucracy? Are there administrative burdens relating to EU environmental legislation that could be significantly reduced post-Brexit? Has there been a history of what might be described as "gold-plating" environmental legislation? If so, are there opportunities to help small and medium enterprises by reducing the costs and the extent?

***Dan Lewis:*** If I could give you one specific example of gold-plating, the smart meters that came in through a new directive were only meant to roll out to 80% of the country. We effectively gold-plated and said, "We want to take them out to 100%". On top of that, we have come up with an extremely complex and expensive way of doing this, which is equivalent to just over £400 per household under the programme for smart gas and smart meters and all the communications technology to send all this, when we know that there are SMEs that can effectively upgrade the existing "dumb" meter stock to smart capability at a cost of something like £50 or £60. I do think it would be a mistake to think that all EU regulation is bad, all UK regulation is good, and vice versa; there are good and bad sides to all of this. I would like to offer that as one specific example.

**Lord Krebs:** Your explanation about the £400 versus the £60 was nothing to do with the EU, was it? That decision was made in—

***Dan Lewis:*** Absolutely.

**The Chairman:** It was an example of gold-plating. That was the point.

***Dan Lewis:*** Yes.

***Finella Elliott:*** From speaking to our members, there is a general feeling that EU regulation is not perfect and there is definitely scope to reduce admin burdens. We have campaigned for a long time for the streamlining of environmental regulation. In one of our recent surveys, something like 70% of our members wanted to see this stock of environmental legislation rationalised and reduced. We have no specific examples at the moment. We are discussing this with our members and we are happy to provide further details once some of that work is done.

***Steve Elliott:*** I would perhaps repeat an earlier answer to Lord Rooker when I gave an example in the climate change area, where I think we could seek and gain some relief. The removal of the EU state-aid requirements that I mentioned could allow us to have a UK policy mix that is significantly simplified. At the moment, chemical businesses face limited eligibility for partial relief from policy-related costs via the instruments I mentioned earlier. There is an energy-intensive industries' compensation scheme for renewables, there is the energy-intensive industries' compensation scheme for European Union Emissions Trading Scheme and the carbon price floor, and so on, as I mentioned earlier. That strikes us and our members as an opportunity to simplify that policy mix.

A very practical example in the climate change area is the energy efficiency directive and its audit requirements. That is implemented in the UK through the energy savings opportunity scheme—ESOS. That requires businesses already covered by EU ETS to conduct energy-efficiency audits, creating an overlap that we think is unnecessary because of what we need to do under the European Union Emissions Trading Scheme. Practically, you end up with diverting manpower from energy efficiency project work because the audit requires past evaluations to be repeated using external auditors, whilst not requiring the improvements identified to be implemented. There are a couple of examples in that area, but we are looking to do more work.

Q53 **Baroness Wilcox:** The question is about policy stability and long-term goals. Do you expect the UK's withdrawal from the EU to affect policy stability? The second question is: is any uncertainty in environmental policy delaying investment or research decisions? Any one of the three of you, or all three, please, would be great.

***Steve Elliott:*** In the short term, the announcement of the great repeal Bill and the transfer of all existing EU law into UK law provides some stability to the industry. Looking at the longer term, there is currently very little indication on future environmental policy goals for the UK post-Brexit, so that inevitably brings some uncertainty to those long-term investment decisions for business. On the impact of that now, very rarely will a business pin itself to one particular piece of legislation and say, "It is because of that we have not done this". What I can say is that we have not seen a signal that all investment spend committed before the referendum vote is being stopped. You have seen some quite high-profile confirmation of that through investments by the likes of GlaxoSmithKline and AstraZeneca, and the work that is going on around Grangemouth on Teesside to import ethane to take advantage of US shale gas economics. All those things are carrying on, but there is no indication that new investment is proceeding whilst we have this uncertainty.

**Baroness Wilcox:** There is the rub.

***Steve Elliott:*** Yes.

***Dan Lewis:*** I do not have any special insight on the research side of things. I cannot help on that.

***Finella Elliott:*** Talking again about investment, we do not have any specific examples in relation to environmental or climate change standards, but we regularly survey our members on their wider investment intentions. A lot of our findings concur with what Steve is saying, in that although we have not seen a big difference between March and April in our investment survey we are seeing that these elevated levels of uncertainty are precluding businesses from accurately forecasting business demand into the future. That will have the implication of slowing down investment. We have also seen a spike in political uncertainty. That has quadrupled from 5% to 20%-odd in our March and August surveys, which is quite significant. I am more than happy to share our latest investment survey with you, if that would be helpful.

**Baroness Wilcox:** So, for you, the quicker the better?

***Finella Elliott:*** Yes.

**The Chairman:** To follow that up a little, obviously this whole area gives a certain amount of uncertainty, good or bad—we are neutral on that, obviously. How important is environmental regulatory uncertainty in comparison, say, with other aspects of uncertainty that come from Brexit? Is the environmental side particularly important in terms of the UK, as a Government, setting that out pretty quickly, or does it need to be only number five or six on the list? Do you see what I am trying to get at? I am trying to understand whether this environmental policy area is particularly important for business decisions, whether it is investment, recruiting, growth or exports. Do you have a view on that?

***Steve Elliott:*** Yes. I am representing a capital-intensive industry that is demanding in its energy requirements, for example, both for energy as a source and for feedstock. I could not say it is number one, two or three, Lord Teverson, but I would say it is very important. There are some areas where the ball is already rolling, and we have talked about some of those—whether it is REACH and compliance with REACH or whether it is the industrial emissions directive and how that pans out—where, in most respects, we would wish to see continuity of what we currently face; better the devil you know.

If I look at the energy piece then a certain proportion of our membership is very energy-intensive, and we are talking about 50%, 60%, or 70% of its total cost-base coming from energy. That is why, I think, we would be looking for scope in that area as a big opportunity for the UK beyond departing from the European Union.

***Dan Lewis:*** We survey our members very regularly, and we did a comprehensive survey on energy quite recently. Whilst they liked decarbonisation and renewables they also liked fracking and nuclear. They were very disappointed with policy in terms of its outcomes in energy security and cost. To take a step back, I have a very broad brief with energy and infrastructure, and consistently they tell us the number one infrastructure issue for them is broadband. If we are to move to a much smarter grid that whole telecommunications side could be addressed much more.

**Lord Rooker:** I have a question directed to Steve about the industry. From my travels round the country—which I do an average amount of, like anybody else—I take it that your industry is highly concentrated in certain geographical areas of the country. By "the country"—this is what I want to ask about—we do not mean that it is all England, do we?

***Steve Elliott:*** No.

**Lord Rooker:** What is the effect or potential effect in Wales and Scotland, or indeed in Northern Ireland, in that case?

***Steve Elliott:*** You are right on our geographical spread. A lot of our industry and its related jobs sit north of the M62, with clusters around Teesside, Runcorn, Liverpool, Grangemouth, as you say, Lord Rooker, in Scotland, and in Wales as well, though to a lesser extent. We already face different environmental regulators, whether it is SEPA in Scotland or Natural Resources Wales. By and large, that co-ordination work currently tends to work very well. I would say our relationship with our regulators is good, and increasingly good. Many of our businesses have to respond to something called COMAH, which is for the high-hazard businesses. COMAH is administered by the joint competency of the Health and Safety Executive and the Environment Agency, or the Health and Safety Executive and SEPA in Scotland, and the Health and Safety Executive and Natural Resources Wales. That co-ordination increasingly works well for us. If Scotland chose to take the independence route that would beg another series of questions for us, but at the moment it works well and there is an ability for each regulator to learn from one another and for the businesses to share the experience across borders as well.

Q54 **Duke of Montrose:** In some ways we have touched on a lot of this already, but would UK businesses and industry continue to comply with EU environmental standards, for example product standards or environmental quality regulations, post-Brexit, in the absence of rules requiring them to do so? I would also like to add a small rider to this question: should the UK maintain a policy of pursuing a more ambitious target on climate change than other industrialised countries? What is the mood of industry in that regard? There is a question for the Chemical Industries Association: when speaking to the EU External Affairs Sub-Committee you suggested that businesses trading outside the EU would seek a more pragmatic, risk-based regime than they feel REACH is. Could you expand on that? I should declare a slight interest in that I was involved in environmental management in farming in Scotland.

***Steve Elliott:*** Thank you, Duke of Montrose. I have referenced the REACH example in response to an earlier question. We will have to continue to comply with the demands of REACH. We want to influence it in the run-up to our departure from the European Union because there is still work to be done. There is a review of REACH and there is the 2018 registration, which all happens before whenever we depart in 2019. Going beyond that, for the reasons we discussed earlier, for those imports coming from the European Union into the UK and exports going to the European Union, we will need to comply with the demands of REACH

The point I was making in an earlier evidence session was this point around where you, as a business, have less of your business focused on the European Union and the opportunity to trade with the United States. Our proportion of EU trade is gradually diminishing as other parts of the world become the opportunity. The United States has relatively recently introduced a new regime which businesses would say—and maybe I would say this, wouldn't I—is more business-friendly and business-sensitive. First of all, it prioritises the chemicals of concern in a way that is a bit more refined than REACH; it enables you to place the product on the marketplace, and then there is the subsequent analysis, approval and review, so you are more able to invest with confidence in providing what we would say are building blocks to North American customers. That was the point I was making there about not having a uniformity of view in our membership because it depends, as Finella said earlier, on where you are geographically exposed, and if you are small. Some of the bigger companies, for efficiency's sake, would probably say, "We want to comply with REACH because we have operations and exposure all around the world and this is an increasingly influential regime around the world"; but if you are a small company sitting in the UK with more trade somewhere else, particularly in the States, that is an example where we might have a different view.

**Lord Krebs:** Very briefly, on some of the things you were saying there about the US system being more business friendly, in your industry sector do you see any conflict or trade-off between what is good for you as a business and what is good for the environment and for human health?

***Steve Elliott:*** Absolutely, and I understand that fully. I went to great length in an earlier question to say that it is certainly not in our interests to seek a lowest common denominator solution, whether it is where we build our plant or where we sell our products. All I am reflecting here is that—and it is my personal view—we see and feel an increasing misuse of the precautionary principle in a European environment, which we see less evidence of in a North American environment.

**The Chairman:** Viscount Hanworth, did you want to come in on that?

**Viscount Hanworth:** I will start with what I thought you were suggesting, which is that America conducts ex-post assessments of chemical hazards whereas the EU conducts them ex ante. Is that the case?

***Steve Elliott:*** The regime the United States has introduced allows you to place on the market a substance[1] which may well be a substance of concern but—and it is very early days with this, so we need to understand the detail of the American legislation a bit more—there is already a prioritised list of substances of concern and they are working through the extent to which there is risk in exposure around those substances.

**Viscount Hanworth:** That rather horrifies me, I must say, if I have understood it correctly.

**The Chairman:** Finella Elliot, did you want to come in on the general question?

***Finella Elliott:*** Just to agree with what Steve was saying. Our members absolutely will continue to comply, and there are many reasons for them to continue to comply—most important is retaining that access to the single market. Many of our members tell us that there are advantages of having one set of regulations and rules with the EU, and our manufacturers tell us they do not want to have to create multiple products for multiple markets; they want to create one product that they can export to a number of markets, at the same time as maintaining the current level of commitment to environmental standards.

***Dan Lewis:*** To answer one part of the Duke of Montrose's question—should we unilaterally have much tougher decarbonisation targets—I think we are already doing a lot. The levy control framework is set to cost, I think, £9 billion per year by 2020. As I say, we are already doing a lot, but to go beyond that and unilaterally impose additional costs on business and so render it, unless you are in that specific industry, less competitive, would not be a good move. I cannot see that going down. We know from surveying our members that they are very concerned about energy costs. There is plenty of scope for finding more cost-effective ways to decarbonise and I think that is something we could certainly look at.

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[1] Note by the witness: "without the significant compliance costs that REACH brings. Parallel to REACH the regime in the United States prioritises substances to determine if they are substances of concern."

***Steve Elliott:*** Perhaps I could add a comment on that because I did not answer that part of the question. There is a difference between relative and absolute here. If I look at our industry, ever since 1990 our energy-efficiency improvement has been about 35%. We are getting to the lower-hanging fruit element now. We do not see enough of the incentive for growth in the climate change area; we do not see enough that enables companies and businesses to respond to the energy-efficiency improvement requirements and also, when they are looking to grow, ensures they are not handicapped in that growth because of an absolute ceiling on carbon emissions.

**The Chairman:** What is the absolute ceiling on carbon emissions? Forgive me; you mean the UK economy as a whole?

***Steve Elliott:*** The climate change agreements that we have under the climate change levy is a good example that enables us to respond.

**The Chairman:** I understand; forgive me.

Q55 **Lord Trees:** I can understand that if a factory here in the UK, post-Brexit, is wanting to export substances or products it needs to meet regulations in the EU around those particular products. Are there situations where that trade could also be negatively influenced by EU demand for environmental controls which had only a local influence at the place of manufacture? Do you see what I am getting at? If there is a factory in Birmingham producing widgets that meet the conditions for safety and quality of widgets in Europe but they are polluting the environment locally in Birmingham, or they are not meeting EU standards in environmental control, but which have a purely local impact, could that affect the sale of the widgets? Could there be an indirect inhibition of trade through regulations that have only a local impact?

***Steve Elliott:*** If I have understood that correctly, if the Health and Safety Executive, or the Environment Agency, in the case of Birmingham, were doing their job they would have the powers to penalise that company, obviously, if it is not compliant with the Health and Safety at Work etc Act or not responding to its environmental permit. There are national and local regulatory controls that would inhibit their trade, certainly, but that would be regulators doing their job.

**Lord Trees:** What if the local controls in the UK were to a lower standard than the EU environmental controls which would be in force then? We have heard from others about the vulnerability of our environmental controls post-Brexit. You do not foresee that sort of situation arising?

***Steve Elliott:*** I think there is a question around how we might implement. I know you are not saying this, but in our part of business I do not see a reduction in standards being either expected or desired.

**Lord Rooker:** I have a brief question on this American thing, because I am a bit confused. An American chemical manufacturer importing into the UK surely has to agree and follow REACH.

***Steve Elliott:*** Correct. Ultimately, correct.[2]

**Lord Rooker:** What is their incentive for lowering their standards? Why would they introduce a system that they could not operate to import into Europe? After we are out they might be able to dump it here but they still would not get it into Europe unless it follows REACH.

***Steve Elliott:*** They would say that their version of that is a more risk-based, proportionate and pragmatic one that is informed by science.

**Lord Rooker:** Do they have an agreement with the EU, the European Chemicals Agency, that they can do that?

***Steve Elliott:*** No, but your point is right. Any product coming into the European Union from wherever would need to meet the requirements of REACH. That would need to happen. That does happen. The interest for them in adopting a regime that is different and, as I say, pragmatic is obviously with their own interests, domestic and in other parts of the world.

**Lord Krebs:** Can I ask you, Dan, to clarify what you were talking about when you responded to the Duke of Montrose on our climate change targets? As I understand it—and as I declared earlier, I am a member of the Climate Change Committee—what is enshrined in UK national legislation under the Climate Change Act 2008 is consistent with the requirements of the Paris Agreement. If we were going to lower our commitment to reducing greenhouse gas emissions we would be going against our own national legislation and our commitment under the Paris Agreement. I was not quite sure what you were talking about.

***Dan Lewis:*** All of that, of course, is true. Forgive me if I have misunderstood, but I thought the Duke of Montrose was asking whether we could go a step further. Could we decarbonise more quickly? Could we unilaterally do more? That is what I was saying: I do not think that would be a good idea.

**Lord Krebs:** You do not want to go beyond the Climate Change Act 2008, at this stage?

***Dan Lewis:*** No. Certainly we are always interested in how to decarbonise more cost effectively and I think there is plenty of scope to do that.

**Lord Trees:** This question is about what influence businesses here, post-Brexit, will have over EU environmental standards. Would that differ whether we were within or without part of the single market? Would we have any influence, to start with, and, if so, what and how?

**The Chairman:** Is that important or not?

***Dan Lewis:*** If you are in a situation where you have no control over the policies, the regulations and the standards, but you have the legal

[2] Note by witness: "but responsibility for compliance lies with the EU based importing company."

obligations and the budgetary contributions, that is not a very good place to be. We will see how this emerges. It does seem to me that the more you can work with others to agree common standards the more potential opportunities you have. Having said that, there are lots of variations within that: there are bilateral-type deals, as exist with Switzerland; there are Canadian-type deals—CETA, as we have just seen—where there is much less overlap; and then of course there is full European single market. I am very hopeful that some sort of agreement can be reached. I am sure Steve would know much more about this than I do, but it seems that a lot of standards are set not just within Europe but outside Europe as well.

***Steve Elliott:*** Yes.

**The Chairman:** You represent, maybe, a smaller-sized business than our other two witnesses. Presumably, some of your members will export into what remains of the EU, so having some influence there might be quite useful and, as individual businesses, you would like to have some influence on standards or whatever goes on. Maybe not. Could you put me right? I do not know whether you are affiliated with sister organisations that you work with, or how you lobby Brussels at the moment. Would some of those channels still be open to you? I am looking at this in a pragmatic way for business. Maybe not.

***Dan Lewis:*** We do have a branch in Brussels. I would say even if you are a very big company, it does not always go your way, and I think the example of Dyson is quite well covered. They felt they were not able to influence the regulations and the standards to what they felt was a fair outcome. Of course, if you are a small business you have, invariably, much less access in Brussels to do that sort of work. I am not sure I have answered your question specifically, but it is something to ponder.

**The Chairman:** You have. You are saying, effectively, you are a regulation taker anyway, so the situation is not going to be different, which is a completely valid answer.

***Finella Elliott:*** Our members are telling us it is absolutely critical. They want to maintain as much influence as possible, and if there is any scope for that to be formal and direct that would be the ideal. EEF would still have access through our sister trade associations in Europe, so institutions such as the BSI, the British Standards Institution, and through some of our multinational member companies as well. To reiterate, it would be far more advantageous to us to have something more formal.

***Steve Elliott:*** I come back to the point I made earlier: staying the course for the two years that we remain in, from whenever the clock starts ticking, is very important. As Finella says, the British Standards Institution currently maintains the UK’s membership of three European standardisation organisations. One of those is the European Committee for Standardisation, which is the one most relevant to our sector, CEN. It is an organisation which sits formally outside the EU and it co-ordinates the work of around about 33 countries, I think, in making and disseminating European standards. Irrespective of the vote, UK businesses, I think, will continue to play a part in encouraging and influencing the work of BSI through to the CEN committee.

**The Chairman:** I am sorry; I am intervening a bit too much here, but you said earlier on that most of the headquarters of your members were somewhere else.

***Steve Elliott:*** Correct.

**The Chairman:** A number of those, presumably, will be in remaining European states.

***Steve Elliott:*** Correct.

**The Chairman:** It is quite important for us to remember that not every manufacturer here is UK-based—in fact, quite the opposite, perhaps.

***Steve Elliott:*** Absolutely, yes.

**The Chairman:** The lines of communication you have had—however good, bad, ineffective or effective they are—would still be there.

***Steve Elliott:*** Yes. That is a very good example. Over the two years that we remain, we are already picking up intelligence that either the UK's voice is not being listened to or our representatives are being less encouraged to speak up on certain dossiers. That makes it all the more important for us to keep networked with our continental European headquarter businesses and others to keep the pressure up from other member states on the things where we agree.

**The Chairman:** You are specifically saying that influence is already going down and evaporating, to a degree, and that is something that you think is very important to reverse.

***Steve Elliott:*** I did not say evaporating, but it is diminishing. I suspect that is not a chemicals-specific comment; I think it is an inevitable outcome from the vote, and we are seeing that in the continental Europe meetings we attend.

**The Chairman:** Thank you. Viscount Hanworth, you have our final question.

Q56 **Viscount Hanworth:** I understand that sustainability considerations are embedded throughout the Canada-EU trade agreement. Can you cast further light on this, and is it possible that a similar approach could be taken by the UK in its future trade relations with the EU? You are nonplussed. I cannot pursue it much more because I was simply asking for a commentary on the Canada-EU trade agreement, but perhaps it is too soon to have understood what has arisen from it.

***Steve Elliott:*** I think it is a bit too soon for us. It is clearly signalling that these are not straightforward deals, and increasingly the ability at a very local level to influence those outcomes as well. One agreement that we had been looking to play a supportive role in, and still are, is the Transatlantic Trade and Investment Partnership. The interest for the chemical sector there is about tariff elimination, but it has also been about the ability to start to mutually recognise testing requirements, data, and those sorts of things. I guess we are hostage to wider agents with regard to the fortunes of TTIP.

**The Chairman:** That is probably true, I think, after this morning, as a comment which is slightly outside our remit, the other side of the Atlantic. Can I ask one final question, very briefly? Viscount Ullswater mentioned tariffs, which are important, but the other area concerned is technical barriers, so you can have free trade but your customs officials can be very difficult, if you like. It depends on the degree of Brexit we have; but if it is a more extreme Brexit, are non-tariff-barrier technical issues in the environmental area going to be particularly important where, I do not know, mischief could be made by the other side afterwards? Or is that not of concern?

***Steve Elliott:*** We are doing a piece of work now with our members. We are surveying them on that level of detail: on a scale of "nuisance" to "a real impediment to business", what do these non-tariff barriers suggest for us, depending on the outcome? We would be very happy to share the outcome of the survey results. I cannot tell you now the extent to which environmental non-tariff barriers might play their part, but we will be in a position to share the evidence, probably in an anonymised way, with the Committee.

**The Chairman:** That would be very useful, thank you. Are there any other comments?

***Finella Elliott:*** No, we would say this is still quite early on; we are still in a consultation phase with our members. Again, if we have anything we are more than happy to share.

**The Chairman:** I thank you very much indeed for going through some of the detail with us. If we have tried to drill down here it is because we do not necessarily deal every time with the business issues to do with the environment. It has been a really useful session. I thank you very much indeed for your evidence, and I bring this session to a close.

## Examination of witnesses

Michael Jacobs and Dr Doug Parr.

Q57 **The Chairman:** Can I welcome our witnesses to this further evidence session on Brexit and the environment and climate change? Can I welcome you, and make clear what is obvious, that this is a public session in that it is being webcast and it will also be transcribed? We will send you a copy of the transcription and if there is anything you see that is incorrect, please come back to us. I remind members to declare any interests that are relevant when they ask their questions. From my own point of view, I am a board member of the Marine Management Organisation, if we should discuss anything marine. I am also a director-designate of the Green Purposes Company, which is related to the privatisation of the Green Investment Bank.

If I could ask you both to introduce yourselves, not just to the Committee but to those of the public listening as well, and perhaps, Dr Parr, I could ask you to start.

***Dr Doug Parr:*** My name is Doug Parr. I am policy director and sometimes-called chief scientist for Greenpeace in the UK.

***Michael Jacobs:*** I am Michael Jacobs. My current role is director of the Commission on Economic Justice, which is a new initiative about to be launched by the Institute for Public Policy Research, where I am still currently acting research director. I am also visiting professor in the School of Public Policy at University College London.

Q58 **The Chairman:** Thank you very much. Perhaps I could start with a fairly broad question. What we are trying to do here is look at some of the broader Brexit issues in this area. In your view, how can the UK most effectively position itself to maintain high standards of environmental protection, assuming that we want those, and high levels of climate ambition after we leave the European Union?

***Dr Doug Parr:*** Let us be clear. I think the evidence base indicated that the EU had been a positive force for environmental protection, and so leaving the EU presents some risks, depending on what standards are maintained in different sectors of environmental performance, but it is also true to say it presents some opportunities. Broadly speaking, on climate and energy, climate particularly, domestic action is driven by the Climate Change Act. It is perfectly possible to reconfigure our thinking so that we lead on areas of international significance—I think, for example, of offshore wind or smart grid—where actually demonstrating to others the possibilities whilst simultaneously generating employment in the UK offers real opportunities here, which were not precluded at all by our membership of the EU, but I think the new politics around government at the moment would allow that.

Perhaps other opportunities would arise thinking about two areas where the European influence has not at all been wholly positive—in fact, it has been pretty negative—the Common Agricultural Policy and the common fisheries policy. Those policies in relation to agriculture and fishing could be reconfigured so as to have environmental protection at their core rather than as an add-on. We have publicly said that we think if there is money ring-fenced for agriculture, or at least money directed towards agricultural activity, it should be for the purposes of public good rather than simply for ownership of land. You can see how some innovative approaches there could be adopted. The same might be true in the fishing sector.

That said, there are opportunities but there are also risks. We see particularly deregulatory risks where regulation has been an important driver of improved performance. I noticed in the previous session you were talking about chemicals. I would particularly point to standards on, for example, vehicles, on air pollution and fuel economy, and on appliances. Those things have been of benefit to the UK population, and continue to be so, although certainly in the case of air pollution and vehicles, not of as much benefit as they should have been, but probably better than if we had not been a member of the EU as they were being drafted. There are certainly opportunities but there are also risks.

***Michael Jacobs:*** I would like to answer this question in two ways. The first is legislative and regulatory. The gloriously misnamed great repeal Bill—misnamed because its purpose is to do the exact opposite of repeal, which is to incorporate all EU law into British law, with possible subsequent repeal, but nevertheless that is what the Bill will do—should, if it is done correctly—and we do not know what will be in it—incorporate all current EU environmental standards to which the UK is subject into British law. The core legislative framework of standards—and the question is about maintaining standards—should remain, and that is a very effective means of doing it. Some of the options for leaving the EU would have left those standards less clear but, if we are going to incorporate it all into British law so as to ease the path of subsequent transition, we should be able to maintain most of it.

The second part of the answer though is about the politics of this. The politics of the environment in the UK have been slightly strange over the last 30 or 40 years, since the European Union basically took competence over most environmental policy. The environmental movement has not had to do a lot of lobbying of its MPs in the UK and has not had to generate vast amounts of public support for strong environmental policy because the policies were being made at European level and the politics of influencing European legislation is different. You need to have public opinion on your side; your own Government, who you are primarily lobbying to make European law and regulation, need to know they have the support of the public; but it is a much more technocratic process, and that has largely driven the environmental outcomes we have in the UK and environmental standards.

The exceptions, I would argue, are two. One is climate: the UK politics of climate in the late 2000s, and particularly the period 2006-2010, where huge amount of public concern was generated by the environmental movement and the scientists and so on about climate change, led the European movement. We enacted the Climate Change Act in 2008, which was stronger than European legislation and very much influenced the European legislation, and the targets that we have under that Act are stronger than we would have been given had we simply done this through the EU.

The other area I would say is there have been bits of natural habitat and farmer regulation under the modulated parts of the Common Agricultural Policy, the UK spend, which have been subject to quite a lot of British environmental politics. The point I make here is that we will have to reinvent British environmental politics in circumstances where we no longer have the EU as our primary legislative vehicle and it is unknown how that will work out. We think the British public are pretty green but they will be faced with lots of business interests and others who will no doubt argue that some of the things they wanted to do will not be good for business, will not be good for the economy, and so on, and we will have to do that in a different way from the way we have done it before.

It seems to me that there is all to play for there in political terms but it requires the environmental movement to re-energise itself in areas where it has become very technocratic over the last two decades, I would say.

**The Chairman:** Thank you very much indeed. You are telling Dr Parr he has a far harder job in future.

***Dr Doug Parr:*** I think it is fair to say we are quite aware of that.

**Lord Krebs:** You have already touched on the questions I was going to ask, particularly Doug in his response, but I wanted to reflect a little bit more on the net impact on the UK’s environment and climate change policies as a result of being in the single market and being part of the European Union. You have mentioned some examples where you think it could have been better, CAP and CFP, but overall I had the sense you are saying the net effect has been positive. Perhaps you could just elaborate on that a little bit.

***Dr Doug Parr:*** Reflecting on the sort of trajectory of history here, if you conceive of the modern environmental awareness kicking off around the early Seventies, environmental regulation and policy has grown up with the UK as a member of the EU, and there are clearly a number of areas where it makes absolutely no sense to try to do stuff on your own. Climate is indeed one of them, and a kind of cause célèbre, but in terms of public health, air pollution is clearly one of those where a great deal of the air pollution that we experience is imported from the continent, and vice versa. Some of these measures that have driven improvements in environmental performance and energy performance have been done under a single market mantra, or a single market legal status. I have already referred to appliance standards and vehicle standards, but the environmental measures, things like bathing water, fresh water, the Groundwater Directive and so on, were also done with a view to common collective standards to improve people’s quality of life; for example, quite a lot of the social standards, worker protection and so on. We have those as part of a single market where we collectively trade but we also collectively expect to be raising the quality of life of the citizens, and of their environment, at the same time. That has been happening simultaneously across a whole range of regulatory activity.

We do not really have standards derived from our own politics, a point that Mike was making, and it seems to me that it would be foolish to cast aside some of those standards which, as I say, have potentially made people's lives better. Some of the environmental stuff around habitat protection could be domesticated, for want of a better term, without necessarily a dilution of standards. I am not saying it will; I am not making prognostications about the politics of all that, because I think in some cases it could be quite challenging, but in theory some of it could. Other stuff where we have been participating in a single market—appliance standards, vehicle standards—it makes very little sense for us to start to plough our own furrow when we are so intimately connected with the market elsewhere, and where those standards have been responsible for essentially greater disposable income for our citizens because they have lowered fuel use, they have lowered energy bills, and so on. Does that answer your question?

**Lord Krebs:** That is very helpful. I should, by the way, have declared an interest in that I am a member of the Climate Change Committee and chair the Adaptation Sub-Committee.

***Michael Jacobs:*** I do not think I have anything to add really. I would say more or less the same. The value of the single market is that countries cannot undercut one another by lowering environmental standards, and that has been very important in this area.

Q59 **Lord Rooker:** I will jump my question, which is 3 on your list, because you have covered it, although I have a couple of points to raise that come out of it. One specifically is that you said, Michael, that the public were green. Were they green in the sense that they were ignorant about the fact that quality of life, clean beaches and clean water were from the EU, which they have been told was the bogeyman, or green in the sense of pushing for the policies, so they were receptive to changes in policy? There are two ways of looking at this.

What I really want to ask about is afterwards, in taking control of our own policy and everything else, what we have picked up this morning and in evidence the other week is the crucial regulatory function of the Commission in the sense that it can infract a Government. I know personally, and I suspect you know as well, that the Government are more fearful of the Commission than of the Supreme Court, and they have moved because they did not want to be fined. If the Health and Safety Executive on the one hand is looking after chemicals, and the Environment Agency is looking after that, if we are out, who then makes sure that those two bodies make the Government operate the regs? At the moment they do it because they are audited by the European bodies on the basis of trade in Europe, so everybody knows our Health and Safety Executive is following the rules because the EU body has been to audit it, therefore every is okay and we can trade. There will be something missing when that is out. Could you address that? Then I want to ask Doug about the CAP aspects as well.

***Michael Jacobs:*** Perhaps I can answer that. To clarify my previous answer, the word "green" was meant to mean environmental, not innocent. I am no better able to analyse why people voted in the referendum than you are, Lord Rooker. What we know about public opinion is that the environment is one of the things they think the EU is good for, but it did not outweigh the other things that 52% of the population thought it was not good for.

To take your substantive point, I think this is incredibly important. Like you, I have been in government only as an adviser; I was an adviser to Gordon Brown, both at the Treasury and in No. 10, on environmental and energy and climate change policy, and I know very well, like you, that the threat of infraction drove environmental policy. Our recycling targets were driven by the threat of infraction, and the sums of money that we were going to be fined were absolutely at the heart of that process. We know in air quality that it is that threat that has dragged Governments over the last 10 years towards higher standards, so you are absolutely right: without that sanction, what happens? We have to assume that, either because we are in the single market and the air quality regulations still apply, or in practice because we have incorporated them into British law, there is still a court that would be responsible for seeing whether or not the Government had complied.

I defer to lawyers on this but the question in my mind is exactly what kind of sanction the Supreme Court, or wherever this eventually ends up, can impose. The Commission can fine. The Supreme Court does not fine. It is likely to do what it has just done with the Government over air quality, which is a judicial review procedure, and the question is whether the Government have done what the legislation requires them to do in a reasonable and sufficient way, and the Government can be found against. Last week the Government were found against in relation to air quality and they are going to have to produce a new plan, but if the new plan is judged to be reasonable and so on, that is the whole sanction, and it is not a financial sanction. Domesticating environmental law creates a different structure of compliance and requirement, and that seems to me one of the major concerns about shifting away from it. It is less what standards you have; it is what compliance forces government into acting sufficiently to meet those standards.

**Lord Rooker:** Doug, I am not sure if you were here all the while. I raised this point with the previous witnesses, although, frankly, it was probably outside their remit. If we are outside either the single market or completely outside, there are things we might be able to do to make our environment better because we have more control. The example I gave them, which you touched on in your introduction, was the fact that the CAP does not target greenhouse gas emissions in agriculture, so the farmers get their money and they are not required to do anything about reducing greenhouse gas emissions, whereas if we were outside we could say, "Hang on a minute, we are not paying any money unless you do something about methane and everything else", which is huge—you do not need me to tell you—so we can have a lever over that. Do you see an advantage in that, in the sense it is something we could usefully do, or would the industry—this is the other argument—say that you are damaging it as part of the negotiations?

***Dr Doug Parr:*** I completely agree with your premise that the opportunity of being outside Europe and designing our agricultural funding would allow for something like that. In fact, recently Secretary of State Leadsom signed up to improving the carbon content of soil by four parts per thousand every year, an initiative taken by the French. It was all done rather quietly but, nonetheless, that is recognising the role of agriculture in climate mitigation. I think our agricultural industry would not necessarily want to be seen like that, but there is an enormous opportunity for re-imagining our way of doing agriculture such that it meets a series of measures of public good which are not simply about food production. Obviously you want to make sure that food production happens alongside it, but there are examples such as more innovative use of land so that floods become less likely. You have mentioned greenhouse gas and soil carbon, and there are others. Personally, my view would be that you need to involve farmers very early on in designing projects that would allow things like agroforestry, which could simultaneously improve agricultural use, as has been found in various places. The scope for doing interesting things that are supportive of the environment and agriculture at the same time is quite large if it can be got right.

***Michael Jacobs:*** This then becomes a political question of where the balance of political forces will lie when we come to replace the Common Agricultural Policy and the common fisheries policy in particular. Almost all environmentalists will say we do not know what the counterfactual of not being in the EU over the last 30 years would have been, but almost all of us believe that the UK would not have had such high standards as it has now in most areas of environmental quality if we had not been a member of the EU and if we had been doing it domestically on our own. We do not know what the counterfactual is, but our reading of public opinion and business opposition in many cases during the 1970s and 1980s and so on suggests that is the case. I do not think I am speaking out of turn on behalf of the environmental movement.

I do not think that is as clear going forward now as looking back over that period, so I think it is quite likely, particularly as we have the standards at quite high levels now in most areas, that under a counterfactually UK independent situation we would have had a different kind of politics from the politics we have, but who knows? The farming lobby is very strong, and it will want less environmental legislation and less environmental management in general than the environmental movement would, and when it comes to raising standards—air pollution standards are rising gradually—it is not clear whether that will be easier to do outside the EU or not. That is really the unknown politics of this, and we are moving into a new political era as much as a new regulatory one, because that is where the regulations come from.

Q60 **Lord Selkirk of Douglas:** May I ask what would be the challenges and opportunities of pursuing environmental co-operation bilaterally or through the European economic area? As an extension to that question, you talked about bathing standards for beaches, and in many parts of the United Kingdom the quality of the beaches is very important for tourism and public relations. If a decision were made that that policy should be continued, do you have any comments on how best that could be achieved procedurally?

***Michael Jacobs:*** This is an interesting one because bathing water is outside the single market—it is not a single market regulation—so that directive, along with habitats and birds, would not be covered if we were in the single market, if that happened, but the standards are very highly publicly supported. They are almost all—not completely but very largely—regulated through the regulation of the water companies, which are themselves highly regulated, and by and large, because they pass on their costs in their water rates, they do not mind doing all this stuff. Bathing water is not highly politically charged except, of course, when it comes to consumer bills for water. Every time there is a new investment and pricing framework for the water industry, there are, quite rightly, significant concerns about the effect on low-income households, particularly in certain parts of the country, and it is a very geographically differentiated system, which means that people pay different bills in different parts of the country. Cornwall and the south-west are always justifiably complaining that they have to spend all the money on the beaches but they have some of the poorest communities in the country. So there is a politics of this but it tends to be quite some distance from the bathing standards that have generated those problems. My guess is that we will maintain those standards and we will continue to regulate in that way for them. There are other areas which will be much more difficult to do.

On the EEA, if we had a Norway model, Norway participates in most European things, some of them by law under its EEA agreement and some of them simply through co-operation. It will be very difficult to leave. It will be quite bloody for political reasons but afterwards, assuming we were out and there was an agreement, my guess is that all European countries, including the UK, would want to co-operate on the things it is sensible to co-operate about. There is not much dispute about the value of environmental co-operation and I think it will be relatively easy to do that. Norway and in fact Switzerland, on environmental things have largely very easy, civilised relationships and so on. I do not think that would be very difficult in practice.

**The Chairman:** Is that somewhere you would see an informal relationship working rather than some sort of high-falutin' treaty arrangement?

***Michael Jacobs:*** That would be the question of the Brexit deal. Is it a formal arrangement like the EEA, which is a treaty between the EFTA countries and the EU, or is it more Swiss, is it bespoke and takes much longer and is more complicated? Either way, I do not think the environment is likely to be a significant area of dispute, and once the difficulties of Brexit are out of the way, that should come relatively easily.

**Lord Selkirk of Douglas:** May I ask very quickly what you perceive might be the biggest challenges we would have to face in this connection?

***Michael Jacobs:*** The Common Agricultural Policy and the common fisheries policy are much harder than everything else. Norway is not subject to either of them, and they are areas both where the environmental movement has the most concerns about the existing framework and where, as Doug says, there is an opportunity outside the EU to invent something else, and where there is lots of European money. The European money clearly needs to be replaced in some form or another, so it involves not just a regulatory process, which will be difficult, but a budgetary one, which will be very difficult, under circumstances in which the UK fiscal resources may be less, for economic resources, than they were before, and where the farming community and the fishing community will be competing with everybody else who wants the money that is possibly made available, or not.

Q61 **Lord Trees:** That brings us nicely to my question about EU funding of UK policy. How reliant is the UK on EU funding, including all sources and including the European Investment Bank, for its environmental protection and climate change mitigation and adaptation, and would you expect any of that funding to continue?

***Dr Doug Parr:*** One of my semi-detached colleagues on the Greenpeace energy desk did some analysis of EU funding and what might be put under threat after Brexit. I am quite happy to supply those articles to the Committee. In outline, for what can loosely be called environmental spending, about €5.8 billion is earmarked to flow to the UK between 2014 and 2020. The assumption is that that will continue pretty much up to the deadline. That comes partly through Common Agricultural Policy and the so-called pillar 2. It also comes through other areas like the LIFE pot, and there are one or two other bits and pieces where that money goes. A lot of it is for habitat restoration or habitat maintenance or improvement. It is not at all clear whether that money will be maintained in the post-2020 period, when we are responsible for our own spending and deciding whether or not, for example, to improve the habitat of the bittern, which is one of the success stories of EU funding. I think some of it also goes under structural funds as well, but there is a breakdown that I can supply.

Turning to the question on the European Investment Bank, the numbers from last year are that there was lending of about €3.6 billion. Mostly that went to large renewables projects, such as, particularly, offshore wind. The status of the EIB lending in a post-Brexit world is one of the issues still to be resolved, so whether that money will continue to flow or not is an open question. I think the experts my colleagues spoke to were, shall we say, a little sceptical that it would continue to flow on that scale when the UK ceases to be a member of the EU. There is no formal mandate or statute that says the EIB cannot lend to people outside the EU, but is it likely? I think most people would expect not.

**Lord Trees:** Are there examples where it does lend to countries outwith the EU?

***Michael Jacobs:*** Yes, mostly developing countries and emerging economies around its borders, which is a different kind of funding from funding its core members. The UK could remain a shareholder and put money in, and under those circumstances it would be quite hard to argue that it should not get some money back—it is not quite clear why we would put it in otherwise—but the flows may or may not be the same. Those are semi-political decisions. They have been absolutely critical. This is a public investment bank and it takes risk, which allows private flows. The leverage it gets from the amounts of money it puts into private investment because of the risk it can take is very significant. The UK and every other country in the EU that has used EIB funding has had far more investment as a result of that. It is a really significant instrument of environmental policy.

**The Chairman:** I was wrong in my own mind. I understood that we could still receive EIB finance but I did not realise we could remain a shareholder with the rights that obviously go with that.

***Michael Jacobs:*** The UK could presumably, if it wanted to do so, say, "We would like to remain a shareholder. Is that okay?" and it would be up to the remaining shareholders to say whether it was okay. It would be odd for them not to accept UK money, I think.

Q62 **Duke of Montrose:** First of all, let me declare an interest as a farmer for many years in Scotland, receiving money under the Common Agricultural Policy. The question is: what has been the effect on the UK's environment and climate research outputs of working with the EU? There was a report produced from a Committee of this House that, as far as I can remember, talked about a similar sum of money to that mentioned by Dr Parr as coming from the EU for environment generally. A fairly hefty sum came from for environmental research, which we are likely to lose almost entirely. The pillar 2 funding is environmentally based, under the Common Agricultural Policy, but in fact there is quite a lot of compliance required under the pillar 1 money; it does not just go straight into the farmer's bank. The other thing of course is that things like nature reserves do not bring in any money; the cost of nature reserves is the cost of running SNH, for example. One should look at what proportion is going into the environment at the moment. Could we find out whether Brexit would have a negative effect on the research relationships and, if so, how it can be mitigated?

***Michael Jacobs:*** There is no question but that it will have a negative effect. There is a lot of money, but it is more than the money; it is the complete intertwining of European research efforts, as many scientists have been pointing out. British science and research, social science as well as natural science, is thoroughly European; in fact, it is pretty global.

Scientists work together. Because you have European funding streams, Horizon 2020 in particular, which are joint bids—they have to be joint bids—you have the required integration but you also have a natural cultural integration of research units. This is not just the money; it is the integration of British scientists into European projects, and vice versa, and the cultural richness that that brings—the fact that almost all European environmental research is pan-European, so you learn about different models of doing things in the whole of the European Union. This is much more than just the money: the money is huge, but the whole way in which science and academic research has been organised since we have been a member of the EU is at risk.

Again, the question will be how much of that can be sustained and, again, as with environmental policy, my general presumption is that most researchers and academics around Europe would want the UK to remain part of those things and the UK would want to remain part of them. Co-operation ought to be available, but it is hard to see the money being available. This is European money for European Union members. People will want to continue the idea of co-operation, but it is hard to see the money going to the UK, and it is huge.

If I can just expand the question slightly, it is not just research; the European Union funds lots of things. We have had 40 years integrating with the EU. I looked this up this morning: there are currently 108 European grant schemes of one kind or another, or calls for proposals, available in the environmental field. Some of these will be small—they are for community organisations, for farmers and researchers and so on. We are very integrated in the way we do things, and lots of money flows come into the UK. Even though some of these are small, it is the breadth that is, I think, very striking. I do not see why this would continue; however much people wanted to co-operate. I do not see why we would have access to European Union money when we were no longer members.

**The Chairman:** Perhaps I could bring Lord Krebs in to ask a supplementary on that, then bring Dr Parr in.

**Lord Krebs:** Very briefly on that, is it not the case that certain countries that are not members of the European Union, including Israel and Switzerland, nevertheless participate in European research programmes like Horizon 2020 and the ERC? Obviously, one pays a subscription, but there are mechanisms for remaining within these programmes even if you are outside the EU.

***Michael Jacobs:*** That is indeed the case. Those countries do not have nearly the sums of money that we have, partly because they are smaller and they have less developed academic bases and so on. It is an open question as to what could be negotiated afterwards but I think it is very hard to see us remaining as integrated as we are now.

***Dr Doug Parr:*** I do not want to repeat what Mike has said, but, anecdotally, I think it is very much more than the money. It is about the ability to integrate culturally and in an interdisciplinary way with other centres of expertise across Europe. Anecdotally, people are already finding that they are not likely to be made lead investigator on something where they otherwise would. They may or may not be able to participate in the project but the idea that they are going to be lead investigator, with a package of EU money, when we are outside Europe is just not going to happen.

In some ways, I am less worried about the money simply because this Government have set themselves on a track of saying, "We want to innovate, we want to drive the knowledge economy". I do not think that money, particularly on environmental but more generally scientific research, is banked, but there is a plausible political pathway towards maintaining the money. However, the prospect of being able to maintain that innovation through our access and involvement with other countries in other parts of the EU I think is threatened.

**The Chairman:** Mr Jacobs, if you had further information about those however many projects, I think that would be very useful for the Committee.

**Michael Jacobs:** I will send a link to your clerk.

**The Chairman:** Thank you. We move on to Viscount Ullswater.

Q63 **Viscount Ullswater:** I just inform the Committee that I am a life member of the Supporters of Nuclear Energy, and I am a trustee of an agricultural estate in Cumbria. Dr Parr pointed out, and as we are talking about co-operation now, that the UK will continue to share the physical environment with the EU, although it will no longer have a formal role in the discussions that will regulate it. Mr Jacobs, you were giving me the impression that the EU had raised the environmental standards—although we were complicit in that, the EU had been the driver. What should the UK's strategic priorities be with regard to working with and influencing the EU on environmental and climate issues? Are there any policy areas which the EU might put forward that would have a negative effect on the UK?

***Dr Doug Parr:*** Some strategic priorities for working with the EU spring to mind. I have already mentioned air pollution, and there is a whole suite of regulatory standards where we share a common space. Those apply to vehicles, but we should also work with the large combustion plants directive, NEC ceilings, and the industrial emissions directive, because I think it would create quite a lot of animosity if we were effectively lowering our standards and dumping pollution on our European neighbours. We will have to work effectively, and we may even need a new institution—I am not quite clear how this is going to work—around fisheries, because fish move about, and so having an environmental science-driven approach to catches and take is an area in which we will have to co-operate with our neighbours; it will be absolutely essential.

I would also point to the single energy market, because I do not see that it is in anybody's interests—except maybe some utility companies, but even they do not seem to be pushing against this—not to maintain our relationship in a single energy market. It lowers costs for consumers, it allows more integration of low carbon, and improves security on both sides of the channel. I would hope that continued membership of the single energy market would be applicable.

***Michael Jacobs:*** I agree very much with Doug on those, but I will add one, which is climate policy. The UK has been a leader within the EU on climate policy. Whereas you heard me rightly saying that I think being in the EU has raised standards in most environmental areas higher than they would have been had we been out, on climate policy the UK has helped to drive European policy upwards over the last 10 years or so. The immediate effect of our leaving will be to lower EU climate targets, because we have a slightly disproportionately high share of the EU total. Our coming out will reduce the targets but it will also, more importantly, take a really important voice out of EU policy-making.

The UK has, on almost all aspects of climate policy, under all three kinds of Government we have had since this started in the mid-2000s, been very progressive and pro action on climate. The question is how you carry on doing that. The EU's domestic—that is, EU-wide—climate policy is decided by itself, and although it talks to Norway about it, it is not made by Norway and Norway obviously has no vote and Switzerland even less, and so it is hard to imagine how we would do it. Even on the international stage, Norway, which is very close to the EU on climate policy—it adopts EU climate targets, so basically takes EU positions—is not part of the EU negotiating bloc; it is part of the umbrella group which includes the US, Canada, Australia and Japan, not all of which have always been particularly progressive on climate. Switzerland is part of a little group with Mexico and South Korea called the Environmental Integrity Group. The UK's voice will diminish hugely not just in the EU's domestic policy but in its international role.

Paris obviously has set a really important framework and the UK was very important to that as part of the EU, but we have not finished; we are going into a new round of international process, to stocktake in 2018 and a new round of commitments in 2020. The world will have to keep pushing at these. The UK has been a really important part of that in the EU and I fear that our voice, even if we take the same stance individually, will be weaker, and we will not have that impact on the EU and therefore on the rest of the world. I think that is very regrettable but I cannot really see how we can do it from outside.

Q64 **Lord Krebs:** My question builds on what you have just been talking about. You were talking, Mike, about influencing global policy in relation to climate change and the climate change targets, but if we think about how we will influence EU policies from outside the EU, whether we are in a Norway position or in a Switzerland position or something else, are there any examples—you have slightly alluded to this—where countries not in the EU, and therefore not sitting around the table, have nevertheless been effective in influencing EU policy? When we took evidence from the Chemical Industries Association earlier this morning its representative said that the UK had been particularly important in influencing environmental policy because the level of respect for our analysis of risk and the scientific evidence behind it gave us a stronger voice than we might otherwise have had. Once we are outside, will that strong voice still be heard?

***Dr Doug Parr:*** It is difficult to imagine it, because the examples of Norway or Switzerland that we have do not provide a great deal of purchase. Obviously, they are smaller countries, so we are to some extent in unknown territory. At that point I think I should stop, because anything else I say will be pretty speculative.

There is one thing I should add. It is a very particular thing to UK industry and standards, which is that, as an example of the difficulties we might find ourselves in in accessing EU markets, in the vehicle standards, for the cars and $CO_2$ directive, which essentially mandates fuel economy standards, special provisions were made for a particular niche, mid-range manufacturer, and I do not think it is a secret that that was essentially done to accommodate Land Rover. In the absence of a UK voice on the next stage of those, I do not see what interest there is in the remaining EU states maintaining a nice little special treatment for Land Rover.

***Michael Jacobs:*** It was not only Land Rover; all our niche sports car manufacturers also had special rules. I completely agree with you. We will have to comply with all those standards, because we are trading into the European market so we cannot have domestic product standards, but there will not be any special provisions for UK manufacturers. That is absolutely true.

I think Doug is right. The size of the UK makes the Norway and Switzerland models not necessarily decisive. They have no say. On the other hand, it is hard to see why, however big a country you are outside it, the voice of a non-member would have any weight at all in the politics of the EU, because it is decided by the countries, and they are trading off their own domestic interests. Why would somebody not in the club have a say? I find it hard to see that.

The one exception I would make to this—and this returns us to the politics—is that the European environmental movement does not need to do a Brexit. European environmental organisations collaborate with one another a lot and, particularly in western and northern Europe, they conduct a common conversation about environmental politics and policy. There is no reason for them to say to the UK, "You are no longer part of those forums and discussions and common campaigns". If we need to do something new in Europe as a whole, of which air quality and fuel standards would be a very good example, and we are trying to get the European Union to raise standards and so on, the European environmental movement could act as one, and the UK environmental organisations, which are particularly strong, well organised, and so on, could be a very important part of that. You could find them pressurising a UK Government to be in the conversation, which is the same conversation that the French and German NGOs are doing. You could imagine a European environmental politics which did not operate with the UK outside and then influenced both UK and EU but separately.

Q65 **The Chairman:** That is very useful. Let us move on to the question I was going to ask, which is: what relationships should the UK seek to preserve or develop with Europe and international partners? We have talked a little bit about that, as to informal or formal areas, influence globally, and the EU influence on climate ambitions and regimes. I would be interested in further comments on that. We have had quite a game-changer this morning around the climate change area, and TTIP, which you mentioned, with the change of regime the other side of the pond. I wondered how you thought, if at all, that might change the dynamics in this area of the EU-UK relationship.

***Michael Jacobs:*** On climate change, the event that you coyly refer to, given that this transcript will be read for many years beyond today, is the election of Donald Trump as American President, I presume.

**The Chairman:** Thank you for clarifying that. You are right. In history we need to be remembered, yes.

***Michael Jacobs:*** There is no question about that, unless he completely changes his views on climate change, which he might do; we do not really know how much of this was just campaign rhetoric, but he is pretty much on record as a climate change denier. He has said he would support the American coal industry, which is on its way out, as indeed is the coal industry in most parts of the world now—coal-fired power stations and so on—and that he would rip up the Paris Agreement. The Paris Agreement was very cleverly designed. The international community is not stupid. There is a four-year withdrawal period after a country notifies that it might wish to withdraw, which clearly takes you beyond one presidential term, and that is not a coincidence.

My general judgment is it would be very bad—it is very bad—for the general global movement towards reducing emissions and climate change, which received this huge boost in Paris, where finally the world came together around very serious long-term goals for all countries. That has been reinforced by the very rapid transition into international law this year, within a year, the HFCs treaty, the fact that the International Civil Aviation Organization now has a climate policy and so on. There has been a lot of progress, and all of that is without question challenged and put at risk by the election of an American President who does not believe in it, does not want to act and is tearing up American domestic law.

It does not stop it all happening. America will remain part of the Paris Agreement until it formally withdraws, and although American policy will change, a lot of American policy is driven by the states and it is driven by the economy. The reason why Texas is putting in lots of wind power is not that President Obama wants to do climate policy; it is because wind power is cheap, and it is defeating coal and oil on the grid, with some tax credit subsidies but basically without subsidy, and that is happening all over the US. Solar power and wind power are powering ahead in the US, as in the rest of the world, and presidential decree does not change that.

There is no question but that it is very bad, but we should not regard this as the end of climate policy in the US, let alone internationally. The reason why countries are all embarked on the decarbonisation process, slower or faster, is that it is good for the economy, it is good for air quality and so on and so forth. This now has a momentum which is economic and cultural, not just political, and certainly not just driven by an international treaty.

That was my general point about President Trump. In answer to your specific question, I think it will force progressive countries together on this. This will incentivise the EU to remain very close to the UK, assuming the UK remains a climate leader, and there is no reason to think the new Prime Minister is not as much as previous ones have been. I think the same will be true with Norway, with Switzerland and with other countries. The so-called high ambition alliance, which was the driving force of the Paris Agreement—it was an alliance of European countries, some other developed countries, including the US, the least developed countries, the islands, and so on—I think will be reinforced by this, and those are the vast majority of countries. China is doing this for its own reasons and so on. This will reinforce international co-operation among all those countries that want to continue to act on climate change.

**The Chairman:** Thank you. That is an interesting perspective.

***Dr Doug Parr:*** I agree with Mike on an awful lot of that. This is not the end. If you look at the factors that underpinned the success of the Paris Agreement—things like, yes, the impacts of climate change were becoming more real and, yes, we had a helpful presidency in the White House—let us not forget there was also a significant change of heart in China, driven by its domestic concerns around air pollution, coal and so on. A massive part of it was also the collapsing cost of renewable power in particular, which made something that looked incredibly expensive in the failed negotiations at Copenhagen start to look a fairly good idea, and those things are not changing. For states like the UK, which sit outside a negotiating bloc—I, too, think that that is a matter of regret, but we are where we are—there could be other initiatives around new technology, like the Indian solar initiative, where trying to effect things that are delivered rather than talking through the metrics of plans and targets would be a way forward, which would obviously change facts on the ground in a helpful and supportive way to the international process.

**The Chairman:** Thank you very much indeed. Thank you very much, both of you, for your evidence this morning. That is really useful. If there is any supplementary information that you would like to send us, we need it fairly quickly but we would be very pleased to receive it. Thank you very much. At that point I finish this public session.