HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Leaving the EU: Energy and Climate Change Negotiation Priorities, HC 909

Wednesday 19 April 2017

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Watch the meeting

Members present: Mr Iain Wright (Chair); Richard Fuller; Amanda Milling; Antoinette Sandbach; Amanda Solloway; Anna Turley.

Questions 228-316

Witnesses

I: Rt Hon. Greg Clark MP, Secretary of State for Business, Energy and Industrial Strategy; Nick Hurd MP, Minister of State for Climate Change, Department for Business, Energy and Industrial Strategy; Jesse Norman MP, Under-Secretary of State for Industry and Energy.

Written evidence from witnesses:

- Department for Business, Energy and Industrial Strategy - written evidence | PDF version

Examination of witnesses

Witnesses: Rt Hon. Greg Clark MP, Nick Hurd MP and Jesse Norman MP.

Q228 **Chair:** Secretary of State, many thanks for coming. We are very grateful, especially given the circumstances of the past 24 hours. We are really grateful that you have come and that you have brought your Ministers as well; welcome back, Nick, and thank you, Jesse, for coming for what I believe is the first time. We want to cover a range of things, most notably options for negotiations with regard to Brexit and energy and climate change, but we would also like to touch upon energy prices and a number of other things, if we can.

Can we start with your negotiating stance for energy and climate change, Secretary of State? The Brexit White Paper from a couple of months ago states: "The Government is considering all options for the UK's future relationship with the EU on energy." Could you just outline to the Committee what all those options are?

Greg Clark: Before I do, Chairman, I was going to start, given the circumstances of the pending election, by hoping that we might meet again the other side of it. However, I gather from this morning that we will not, at least, meet the Chairman again, since he has indicated that he will not be standing for re-election. I start by putting on record the admiration that we have for the role that you have played in this and previous Parliaments, and the way in which you have conducted this Committee's hearings, including the transition to the new Committee. In all of the areas in which you have concentrated, you have achieved great progress on some of the most difficult and controversial issues. You will be very greatly missed in this House and, I know, as a fellow north-easterner, by your constituents in Hartlepool.

Q229 **Chair:** That is very kind. I feel like I am at my own funeral. Let us get back to the matter in hand—you are not going to flatter me and flannel me that much, Secretary of State, like you have done in the past. Tell us what all those options are when it comes to the EU.

Greg Clark: The first thing to do is to step back and think about what are the areas in which the engagement with the EU is very important in the energy field, and there are a number in particular. One is the single energy market, which applies particularly to interconnectors that we have with France and other EU countries, and we have plans for more of those. The EU has a role in the technical codes, for example, that govern how pricing and the flows to and fro take place, so that is an important area.

There are other areas, such as research and development. You will know from my previous appearance here, in the context of the industrial strategy, that research and development into new energy is an important area. The ability to make sure that we have the right level of highly skilled individuals, which the energy sector depends on, available to work in what is an industry that is very international is another one. Finally, Euratom is, as the Committee well knows, an important area.

The approach has to be bespoke. We are about to start the negotiations, as we all know, but in each of those areas we want to secure, obviously, the best possible deal. Therefore, in terms of the interconnection protocols and codes, we want to make sure that we can increase our ability to have the resilience that comes from a UK system that is well connected to the continent, and obviously the island of Ireland is of particular importance there. In terms of research and development, there are wider conversations that we will need to have as to what our participation is there. On Euratom, what is the basis for our necessary continued collaboration with our partners in Euratom? In terms of skills, we need to make sure that, not least for cross-country projects, we have the right ones.

Energy is a good example of an area in which there is clearly huge mutual interest. It is an area in which, in many cases, as I have said, lots of the relationships are quite technical. They are not really the stuff of high politics, and so I regard it as a good area in which I hope we will be able to make very positive and constructive progress. It is still very early days, Chairman, and those discussions are about to start rather than, obviously, reach any degree of conclusion.

Q230 **Chair:** We will come to Euratom in a moment, but can I just press you on the other three things? In terms of interconnectors, will that continue? Your hope is that, in terms of that interconnection, nothing will change as a result of Brexit.

Greg Clark: I hope that it will not only continue but be increased in a number of different respects. Our vision for our economy is to be increasingly trading and open to the world, and that includes energy, so I hope we will be able to do that. There is a new energy interconnector with France that was approved in February, since the Brexit decision, so there is confidence in that, and that is an important aspect of it.

In terms of future energy strategy, if you want to have—I have given evidence to this Committee on this before—a smarter grid bringing on lots of different sources of power that can offset some of the intermittency that comes from renewables, interconnection is important for that. The ambitions are to go higher; to go more into interconnection.

Q231 **Chair:** The second point you mentioned was research and development, and obviously there is cross-national work when it comes to that. Do you think that will continue?

Greg Clark: I hope and expect that it will. Again, energy is a very good example of this. We have a very strong reputation. A lot of our research into fusion, for example, combines international researchers, and it would make no sense for any of the participants to seek to dissolve very effective working arrangements. There is a wider context of science policy, and I am a former Science Minister and obviously science is part of my portfolio in the Department. Science does not recognise boundaries, and it is very important that scientific collaboration can continue and strengthen, not just with member states of the EU but with other countries around the world.

Q232 **Chair:** Do you think that might mean any access to EU funds when it comes to research and development into energy and climate change?

Greg Clark: That depends on the negotiations to be conducted, clearly. However, in all these areas—and my colleague Nick Hurd spends a lot of time on energy innovation, particularly in the climate change field—again, we have a very strong reputation, so it is not a question of being defensive about our fair share, as it were; we have a lot to offer to the world and to other European countries on this.

Q233 **Chair:** The third element is that question of being highly skilled. The energy industry is obviously very mobile and very international, and this could be a real stumbling block. What do you anticipate will be the future vision when it comes to having people from other countries within the EU coming to work in the energy sector in the UK?

Greg Clark: If you take the case of nuclear power, as the Committee knows, we have a new nuclear power station being constructed in Somerset, at Hinkley Point C. That is an international collaboration, which will involve highly qualified engineers from lots of different countries, but obviously including EU member states. It is very important that they should be able to bring their expertise to bear. To go back to a point I made earlier, this is so obviously in everyone's interest that I hope this will be a good example of an area in which we can come to a satisfactory agreement through the negotiations that will help advantage the industry not just here but across Europe.

Q234 **Chair:** Is it fair to say that you want to see freedom of movement of people within the EU when it comes to the energy sector?

Greg Clark: That is to be more comprehensive in terms of where we are in the discussions and the negotiations that are about to start. But on this point, it seems clear to me that where you have people of very high technical skills working in an international business, there has never been any suggestion that they should be excluded from this country. I have said that repeatedly since I have been in this post and that will be what we go into the negotiations—

Q235 **Chair:** You mentioned highly skilled people and that is correct. You will also be aware—it certainly happens in my patch and in Anna's patch—that in the construction of power stations freedom of movement means foreign nationals coming over who are perhaps medium and low-skilled. That can cause resentment. Where do you think your negotiations will be when it comes to that sort of thing?

Greg Clark: That is to cast us further forward in terms of the negotiations, and I am sure the Committee will want to consider that as it scrutinises the Government's negotiations during the months and years ahead. At this point, it is just a matter of weeks since we triggered article 50 and that is getting too detailed and too specific for me to be able to answer.

Q236 **Chair:** Before I pass on to Antoinette, is it fair to say that when it comes to the energy and climate change fields the Government really do not want anything to change? You like the status quo.

Greg Clark: No. There are a lot of strengths from being able to trade, from the research that is done together. But there are opportunities for a broader international focus; for us to collaborate more with countries outside the EU. For example, two weeks ago I was in India meeting my ministerial counterparts there, and there are opportunities for us to work closely with a market in which the demands for energy innovation are absolutely massive. The growth of the Indian economy depends on the energy system keeping up with it. There are big opportunities for us to do that, and I hope and intend that our bilateral relationship with other such countries should continue. In Japan, just before Christmas, I signed a memorandum of co-operation with the Government of Japan about research in nuclear.

There are opportunities beyond the EU member states, but I come back to the point that it is in all our interests, self-evidently, to maintain the strength of our relationship on energy with our European neighbours and friends.

Q237 **Chair:** As the Secretary of State for Business, you are acutely aware that companies want stability as much as possible. They certainly want certainty when it comes to energy policy. In this turbulent period, with article 50 having been triggered and the negotiations starting, firms and their supply chains can be very much in the dark. How are you going to try to provide that stability and certainty in energy policy during this time?

Greg Clark: We have done that and, as I mentioned, there have been a number of big investments, not least Hinkley Point C but also the interconnector with France and other investments that are being made now. One thing that you know about energy is that it is always going to be needed; it is always going to be in demand. Our reputation in this country is as an innovative place in energy, so these fundamentals are not going to change.

In terms of our negotiations, I say two things to the companies I meet. One is that it would be wrong and false for me to say that within a matter of days I can tell you exactly what the outcome of the negotiations are going to be. Everyone knows that is not the case. But what I can say is what our demeanour in those negotiations is going to be, and it is exactly as I have described to this Committee: it is to be constructive; it is to emphasise the substantial common ground and common interest in advancing in energy co-operation, not partitioning markets. That is the position that we take and that I, having the privilege of doing this job, will advance, and there is reason to suspect that will be reciprocated. To put it the other way, there is no reason to think that it will be in anyone's interests to interrupt those good relations.

Q238 **Antoinette Sandbach:** Secretary of State, I am going to concentrate largely on climate change issues, which of course affect energy policy as well. Clearly, the UK Government was a leader in the Paris negotiations and the adoption of the accords thereafter. Do you see pressure in the UK to change our climate change policies in a domestic setting or are you happy with the course that has been adopted thus far by the Government?

Greg Clark: I will ask my colleague, Nick Hurd, who is the Climate Change Minister, to comment in more detail, but, as a preamble, the leadership that we have taken in this country on climate change has been notable. It is, again, one of our areas of international co-operation—not just in the EU, important though that is, but beyond—that enjoys respect around the world. We have a framework of domestic legislation—the Climate Change Act—that governs our approach, and given that it is domestic, it does not impinge on the discussions around Brexit. Nick was our representative at the Marrakech talks around Christmas and might have something to say.

Mr Hurd: The main point to make is the one the Secretary of State made, which is that UK climate change policy is effectively driven by the Climate Change Act, which was passed with overwhelming cross-party support back in 2008. It is that long-term trajectory towards an 80% reduction in carbon emissions by 2050 that is the guiding star, and that is set in UK law and Brexit does not change that in any way.

To your broader point, we are obviously at a pivotal moment in terms of the international climate change negotiations; we all understand that. As I think you have alluded to, Antoinette, what the UK does and says does seem to matter in this context, but there is no UK solution to climate change; it has to be a global effort or it is nothing. In that context, our role in these negotiations has historically been very intertwined with the EU. As you pointed out, in the run-up to Paris we were one of the lead negotiators on behalf of the EU and instrumental in shaping that agreement.

As we stand here now, looking at this process whereby we will reshape our relationship with our European partners through the Brexit process, there are some decisions we have to take. The first decision is to what degree we continue to bind ourselves to EU legislation that is being negotiated now, which flows from the Paris agreement in terms of how Europe meets its commitments there. That is one decision. There is another decision that is linked to that, which is whether we continue to participate in the EU emissions trading scheme. The third point is whether we continue to negotiate—because these negotiations carry on—as the UK or whether we continue to align ourselves with the EU.

Those are the decisions; those are the options. As you would expect, there are good reasons to try to align ourselves with the status quo. But it is also our responsibility to look exhaustively at the options, just to check that what we are doing is in the national interest and, without being too pretentious about it, whether the choices we take are the right ones in terms of the global negotiations and global common good, which is what the climate negotiations are about.

Q239 **Antoinette Sandbach:** Clearly there needs to be a level of close co-ordination with DExEU on those issues, because if we are going to diverge from the EU it may have knock-on implications in the energy sector, for example, particularly where, as the Secretary of State described, the technical codes are very much set by the EU, including pricing mechanisms. The Prime Minister indicated in her article 50 letter that the UK will become a rule-taker, having very much been a rule-leader in this area. What is your provisional view on the priorities around that? Are you happy that the UK will become a rule-taker in these circumstances?

Greg Clark: Perhaps I can just comment on that and then Nick might want to add to it. When it comes to some of these technical matters, the UK's expertise and standing has proved very useful, by common consent, to everyone in these arrangements. I do not think it is necessarily the case that we would not be able to continue to have an influence where we have things to contribute and in an area in which we can do it, as energy is, in a constructive way, such as the technical codes. I think it is the case that in some of the interconnections with non-EU member states—Norway, for example—they do have some influence on the codes.

Going back to the Chairman's earlier point, it is detailed, it is technical and it needs to be approached in a forensic way, issue by issue, but in the energy field our standing is high and we should be optimistically confident that we will be able to continue to deploy that influence, not because we can or would want to force it, but because it might be welcomed.

Q240 **Antoinette Sandbach:** That still does not change the fact that we will become rule-takers, in effect, or are you planning for divergence, particularly in the area of climate change, where there may be benefits to being outside the schemes?

Greg Clark: I do not regard that as inevitable in all areas. We will have different mechanisms and different committees to agree rules in different areas. I do not want to start by saying, "Well, clearly we are going to have to leave them all." It is a discussion to be had in each area of what is the best mechanism, including dispute resolution mechanisms.

Q241 **Antoinette Sandbach:** Have you raised that with DExEU and identified which committees and which areas you would like to remain involved in, if possible, and in which areas you say, "No, these are the areas that we are happy to diverge on, because we think those will have different benefits for the UK"?

Greg Clark: It will take longer, but we are obviously in constant touch with our colleagues in DExEU. In fact, what the Prime Minister said in and around the article 50 letter and in the White Paper was that we would find the right mechanisms for the right application. There is not a single model that applies.

Mr Hurd: On DExEU, as you would expect, they have received the most comprehensive technical briefing from us on the issues underlying things such as the emissions trading scheme. As the Secretary of State said, we would expect to work very closely with them as those issues become live in the process of negotiation, but I support the Secretary of State in pushing back a bit on the premise. To take a specific example, reform of the emissions trading scheme matters a lot to this country, and whether we are in or out, we are very active in being at the table to play a positive, constructive role in the negotiation of the reform of phase IV, which runs from 2021, from memory, and our European partners, irrespective, are actively seeking our input.

Going forward, we have to make a judgment. If a proposal is put to us—and it is an "if"—that we become a rule-taker rather than a rule-maker, we will have to form a judgment on the merits of that, underpinned by good technical analysis of the pros and cons in the national interest. At the moment, though, that is not the dynamic; it is our European partners seeking our input into a very important reform of an instrument that matters to us all.

Q242 **Antoinette Sandbach:** The European Parliament has stated that any future agreement is conditional on the UK adhering to international standards and EU policies and legislation. At the moment, is it your stance that you are happy to work forward on that basis?

Mr Hurd: They have said that; that is their position. As to how this will unroll in terms of the negotiation, I do not think anyone can say with great certainty.

Q243 **Antoinette Sandbach:** You see it is a negotiating position that might be able to be changed, do you?

Mr Hurd: I would expect them to say something along those lines, but how this will turn out will be subject to the negotiation.

Q244 **Antoinette Sandbach:** I am asking how you see it though. Do you see that as the negotiating stance that could potentially be changed?

Mr Hurd: We are at the start of a negotiation, so that is what it is.

Q245 **Antoinette Sandbach:** But are you trying to change that stance?

Mr Hurd: DExEU lead on these negotiations. Our responsibility at this point is to make sure that our colleagues at DExEU are fully informed about all the technical aspects of what is being negotiated, so that in those negotiations they are as fully informed as possible. We just need to let the negotiation unfold.

Q246 **Antoinette Sandbach:** You do see it as something that can be negotiated on.

Mr Hurd: It is a negotiation.

Q247 **Chair:** Before I bring Amanda in, Nick, you mentioned a couple of times providing technical briefing to DExEU colleagues. They will be going into the negotiations on our behalf and your behalf. Do you worry about that for something as technical as energy and climate change? Do you not want your officials and your input at the negotiating table for something as important as energy and climate change?

Mr Hurd: It will be a test of joined-up government, but so far what I have observed is that the system is working very well. What I expect is that when we get to the stage of negotiations where, if you like, the energy and climate change piece is live, we are going to be all hands on deck.

Q248 **Chair:** How fluid will that be? I will look at you, Secretary of State, with regard to this. There will be negotiations. They could be: "You can have this if we have that," and it is a case of the extent to which you are going to be involved in those quite real-time negotiations to say, "That is a line in the sand that the UK Government, with regard to energy policy, do not want to cross"?

Greg Clark: I am a member of the Cabinet Committee that is devoted to Brexit. I have very frequent conversations with David Davis and our colleagues there. Our officials are constantly in touch and, more than that, we continue to have, as Ministers, regular contact with our opposite numbers in the European Union. Jesse and Nick both regularly attend their respective councils of energy and environment, and sometimes, in my experience, these personal relationships can be important in negotiations, to get to know each other and to have confidence in that.

The negotiations are going to take place over quite a period of time and my view is that, for all of us, establishing good working relationships will be important to find that common ground. It is not just about exchanging bits of paper; it is about sitting down and working together, and that is the style that we take.

Q249 **Amanda Milling:** Good morning, gentlemen. I have a quote here from the then Secretary of State for Energy and Climate Change, Amber Rudd, from 2016. She said, "If we left Europe's internal energy market we would get a massive electric shock, because the energy costs are likely to rocket by at least half a billion pounds a year", and she goes on. Secretary of State, do you agree with the then Secretary of State for

Energy and Climate Change?

Greg Clark: I cannot comment on the numbers that were quoted there, but as a general approach, as I said to the Chair, it is very much in our interests that we continue to participate in the energy market and expand those interconnections. That is of very great importance, especially in places such as Northern Ireland. It follows from that that it would be better if we continue and it would be a bad thing if that was to be disrupted.

Q250 **Amanda Milling:** In terms of the analysis that sat behind that information, what underpinned the then Secretary of State's view?

Greg Clark: As I say, without having seen that figure, I would have to brief myself as to what were the components that went into it, which I am happy to do and perhaps write to the Committee. As a general principle, though, it is inarguable that if you think it is a good thing, we should be doing more of it rather than less of it.

Q251 **Amanda Milling:** You said earlier on in the session that interconnectors are and will remain important, and you have talked about potentially expanding those further. What options are you looking at in terms of their operation if we were to be leaving the internal energy market?

Greg Clark: The interconnectors are going to continue to be there. There is no question that the interconnectors are going to be closed off. A lot of it is, as we have been talking about in the Committee, the technical codes that govern the pricing and the marketing of the energy there. These are important assets and there is no question about them, as I say, being interrupted, but it is important that market principles govern the interconnectors so that we can use them to be a further source of flexibility into the UK market, as they already are.

Q252 **Richard Fuller:** I would like to ask some questions about the energy market in Northern Ireland specifically, which you alluded to, Secretary of State, and there are special conditions: the gas markets in Ireland, although they are separate, rely on supply of the United Kingdom, and the only connection that the island of Ireland has for electricity is via the UK. Could you or one of your colleagues explain who is leading the discussions internally? How are we co-ordinating our position between you, DExEU and the Northern Ireland Office?

Greg Clark: As you might imagine, this has been very high up the agenda in preparing for the negotiations that are about to happen. I have discussed this directly with the Northern Ireland Secretary and the Brexit Secretary. We know that this is a particular priority, as of course it is for the Republic of Ireland; they have the same interest in making sure that our market continues to function very flexibly in the future, as it does now.

Q253 **Richard Fuller:** Are you going to be involving the Northern Ireland Assembly, if and when it reconstitutes itself, in this preparation?

Greg Clark: Yes. The Secretary of State for Northern Ireland obviously is in constant dialogue with his counterparts there. I have met the Minister, Simon Hamilton, to discuss these matters in prospect. As I say, the negotiations have not begun yet, but we both know that it is very important. One of the first ministerial visits that I made with Jesse Norman was to Northern Ireland, where it was made very clear that this should be a priority. We went last summer, shortly after having been appointed.

Q254 **Richard Fuller:** As you look at the various risks and opportunities about the consequences, I presume disruption to the energy supplies in Northern Ireland would be at the higher end of the risks and your concerns. Is that correct?

Greg Clark: The fact is, as you say, Richard, it is an integrated market in electricity, which underlines the case that it would be a bad thing if that were disrupted. However, it goes back to my opening conversation with the Chair: it just shows that it is in no one's interests at all to partition functioning markets, and if we can use the example of energy to establish ways of overcoming problems and working together, then sometimes if you concentrate on one particular, you can extend it to other areas. I see this very much in that way.

Q255 **Richard Fuller:** That is rather a rosy-coloured view of the role of politicians, if I may say so. Politicians, you included, sometimes deem markets not to be acting effectively, and that is your decision rather than necessarily an economist's decision. There is opportunity in negotiations for all sorts of mischief by various politicians, so the complexities are of particular concern for people in Northern Ireland. However, it gets even more complicated, doesn't it? Are we going to be negotiating through the European Union as part of an overall energy solution and the interests of the people of Northern Ireland will be subsumed within that, or will we be negotiating in terms of a discussion about our relationship and the future continuation of the Good Friday agreement, which is also important to us and our European partners? Where will the balance of decision authority lie between those potentially competing interests?

Greg Clark: As is obvious, Northern Ireland has particular applications, which are unusual and, in some cases, complex, in many different areas: for example, border controls, the movement of people, and others. It is not unique to energy that this should be the case, and so the answer to the question is all of the above. Clearly we need to work closely with the Government of the Republic of Ireland on this. There is clearly a whole EU matter that is part of the Brexit negotiations, and we have and I have, as the Energy Secretary, a strong interest in making sure that the resilience of the system in Northern Ireland is there.

There is no getting away from the fact that all of these different forces are brought together in this discussion. It might be nice to wish some of them away, but you cannot; they are there, and so the approach that you have to take is to be meticulous in covering them all in a constructive and comprehensive way. That is why this might be a good template for other areas.

Chair: Antoinette, do you want to question further on climate change?

Q256 **Antoinette Sandbach:** I do, particularly going back to the EU standards and also the ETS scheme. About 55% of our emissions reductions required in the UK by 2030 was due to come from alignment with EU policy areas, particularly ETS, the renewable energy directive and, obviously, product standards and efficiency. The Committee on Climate Change has effectively highlighted that that may be up to 61% of our emission reductions. In terms of those targets specifically, are you intending to remain aligned to those policy areas with respect to reduced emissions?

Mr Hurd: The primary answer to that question remains the guiding star of the domestic legislation, which binds us, and the responsibility of successive Governments, to keep the country on track to that long-term trajectory at the lowest possible cost. I would add also, mindful of what I see, and the Secretary of State agrees, that being on that journey is a very significant industrial opportunity for this country.

As I said before, up to this point our journey has been very intertwined with our European partners. That has been good for us, good for them and good for the world, because, as you pointed out, the EU has been a force for ambition in this. As I said, we have judgments to make about the optimal path for us now. We do have choices, which we did not have before, and it is our responsibility to look at those choices in a proper, evidence-based, analytical way to see what the optimal path is.

However, I come back to the point that what guides us remains our domestic legislation and the legally binding targets that we have set and our responsibility to keep us on track at the lowest possible cost. We have to look at all options now.

Q257 **Antoinette Sandbach:** At the moment, you do not have that information then.

Mr Hurd: No. We are in until we are out, so the product standards, the emissions trading scheme and the directives are a very important part of our policy landscape at the moment. Will we need to continue to support decarbonisation of our industry and power sectors? Yes. Is emissions trading the right way to do it? There are powerful arguments in favour, but there may be other options that we need to look at. Will we continue down the transition to clean power in this country? Yes. This year, a pivotal point, we get more electricity from renewable energy than coal. In the history of this country, that is a decisive moment in time. If you look at the projections of what this country will be spending in terms of renewable energy by 2020, it is very significant. Few countries have done more at the pace that we have done in that transition to clean energy.

Product standards are really important—arguably an understated policy tool in what they have achieved in energy efficiency improvement, carbon reduction and also other financial benefits to our constituents in terms of better standards of products and buildings and cars. Therefore, what we are definitely not going to enter into is a world without standards or, I hope, without ambition on the standards, but the key point about Brexit is that we now have choices.

Q258 **Antoinette Sandbach:** Yes, I understand that you have choices, but given that the UK's carbon budgets are based on net limits, taking into account the EU ETS, if we leave the EU ETS are you confident that we can continue to meet the fifth carbon budget at least cost? What alternative mechanisms—because you have spoken about options—has your Department established to replace EU ETS if we do not carry on with it?

Mr Hurd: On emissions trading specifically, as I said before—I cannot labour it enough—we are in until we are out, and we took a very active, positive decision to say that even if we come out, we need to be very actively involved in the negotiation of phase IV. That has been very welcomed by our partners, who see us as having very valuable input into that process. As I said before, there are good reasons why we are in that trading system. The cap and trade system is an intelligent system, because a cap gives you certainty on emissions and the trade mechanism allows participants to pursue emission reductions at the lowest possible cost. It works. The mechanics of it work pretty well as a system. There is a structural flaw with it, which you will fully appreciate, which has not delivered a sufficiently robust price signal, and that is the focus of the reform negotiations at the moment.

There are good reasons why we are in it and there are good reasons why we should stay in it, but the discipline of the Brexit process and the opportunities that it throws up to do things in a different way mean that, as a Government, we have a responsibility to look at our options and we are doing exactly that, while continuing to participate in these reform negotiations.

Q259 **Antoinette Sandbach:** Can I ask you to answer the question, which is: has your Department established alternative mechanisms to replace ETS, if necessary? It is a simple yes or no, in effect: yes, we have established alternative mechanisms.

Mr Hurd: We are analysing it, as you would expect us to do.

Q260 **Antoinette Sandbach:** Finally, in relation to pressure from business, I am certain that the Department is aware that there has been pressure from business, particularly UK manufacturing, to say that our compliance with climate change targets has damaged UK manufacturing. There is an argument that says we should look again. There is certainly pressure from one sector of the economy to say that we should potentially look again at the carbon price floor, for example. Is that something your Department is also doing? Do you agree with the view of business that it is potentially damaging them and do you see Brexit as an opportunity to address that?

Mr Hurd: We are the Department for Business, so we listen to business very carefully. In this context, there are different business voices that need to be listened to, so yes. Anna knows very well that there has been consistent concern expressed by our energy-intensive industries about relative UK industrial electricity prices. Let us be very specific about what we are talking about: this is not energy prices; this is industrial electricity prices, which are high compared with our competitors.

As a Government, we have signalled, not least in the "Building our Industrial Strategy" Green Paper, our determination to bear down on that problem. Up until now, we have addressed it through what I would call a sticking plaster solution: we have basically paid out money to energy-intensive industries, effectively in compensation. That has cost a significant amount of money and it is a short-term, sticking plaster solution.

We are determined to try to find a more sustainable, strategic solution, which is why we signalled explicitly in "Building our Industrial Strategy" our determination to do an external review and for that to feed into an internal review, looking at the issue of business energy cost. It matters, especially at this point in time with Brexit and our determination, through the industrial strategy, to look at every avenue to make sure that we are as competitively sharp as possible.

There is another business voice that is saying what is important here is to continue on the high levels of ambition, to set a long-term trajectory and visibility, as far as possible, so that we can continue to invest in this transition to the low-carbon economy. Let us be quite clear: at this moment, the official statistics show that in this country something like 235,000 people's livelihoods depend on jobs in what is defined as the low-carbon economy, with £46 billion-worth of turnover—you can probably double that indirectly through the supply chain.

If we look at the opportunities that sit in front of us in terms of the transition to clean power, we see that the change that is happening in the automotive industry, the change that is happening in advanced manufacturing and the way we make things, and the materials with which we make them, add up to a very significant industrial opportunity, and a whole bunch of people say, quite rightly, that we have to grab this. It is our job, as a Department, to bring this together and take a holistic view about what is in our national interests, and that is part of our challenge.

Q261 **Anna Turley:** In this agenda, Minister, one of the things that is missing and may answer some of the questions that Antoinette raised is the emissions reduction plan. Obviously, we were expecting to get that last year. You came before us in January and said that we would get it before the end of this quarter. Is there still going to be an emissions reduction plan? Can we get any sense of when it is likely to be?

Mr Hurd: Yes, there will be, because there is a legal requirement to product it. I hope it will be called the clean growth plan rather than the emissions reduction plan, because I am determined—and the Secretary of State agrees—that this is now embedded into our industrial strategy. This is about seizing industrial opportunity for this country. It is a fantastically complex and challenging process to put together. It is about co-ordinating the Government's approach to a very complicated challenge against a very complex background, both in terms of technology shifts and market shifts, but also we are working through it at a time when we have some quite significant unknowns. Quite rightly, Antoinette has been probing me around some of the unknowns that flow from the Brexit process. These are very material in terms of our ability to meet our carbon targets.

I can reassure you that it will happen. The work is well advanced. The discussions across Government are extremely active. However, as you might expect, yesterday's announcement means it sits in a holding pattern of projects and programmes and things that the Government need to get out, and decisions will have to be taken in quite short order about when things will be announced: before the election or after the election. Therefore, I cannot give the Committee the certainty that I quite understand you are probing me for on that, just because of the circumstances that we are in.

It is a very complex task. We think it is extremely important that we do it well, not least because of the underlying opportunity for the country. The work is well advanced, but we are just not in a position at present, not least because of yesterday's announcement, to give absolute clarity on when it will come out.

Q262 **Anna Turley:** I appreciate your honesty and clarity on that, and we understand, obviously, because the circumstances have changed in the past 24 to 48 hours. Could you say anything else, particularly about the discussions you are having with external bodies on this and what sort of consultation process you have had to get you to the point where you are now and to where you would like to be as well?

Mr Hurd: Thank you for that. Part of the reason why we have taken longer than some people would like on this process—you mentioned that there was an understanding that it would be out before the end of last year—was effectively a new Government came in and a new set of Ministers inherited a stream of work. We were very determined about two things: first, that we needed to genuinely engage on this, and not just with civil society groups and NGOs but with the different strands and dimensions of the business conversation around this. We were determined to take some time and get that right. Secondly, we wanted to align it very closely with the industrial strategy process. As you will know from that, one of the explicit pillars of that Green Paper is clean growth and affordable energy. We wanted to take a little bit of time to align those processes as clearly as possible.

What I would say—I have said it before—is that one thing we are very clear about is the emphasis that needs to be placed in that plan on a subject we have already talked about, which is innovation and energy innovation. As you have heard from witnesses before and as has come through in the conversation, we appear to be on the brink of quite significant change in the way that energy systems work around the world. As the Secretary of State has said, we are very conscious that energy demand is rising very fast in some parts of the world, and the nexus of this is an increased importance that everyone must attach to clean energy innovation. This was very much at the heart of the conversations at the G7 energy meeting, where I represented us. There is a lot of common ground about countries needing to work together on this, so a focus on energy innovation, in the context of the biggest funding commitment to science research and innovation in this country since 1979, I can confidently expect will be a core pillar of the clean growth plan.

Q263 **Anna Turley:** In conclusion, the timeframe is to be confirmed, but can you make a commitment today that it is going to be a robust and ambitious plan, and that your aim is still to have the UK as a global leader through the emissions reduction plan and climate change?

Mr Hurd: Yes and yes, and UK leadership is enormously important to us. We have the potential to build on real leadership in low-carbon vehicle technology. We have existing leadership in offshore wind and smart energy systems. There are huge new opportunities in low-carbon heating, energy efficiency services, advanced manufacturing and, last but not least, one thing we know about this transition to a low-carbon economy is that it will require a lot of private capital. The City of London sits as the hub of green finance, which is a recognised and growing strand of international capital-raising activity, and we have a fantastic opportunity to capitalise on that. Given all those opportunities, of course we want to be ambitious.

Q264 **Chair:** Forgive my ignorance, Nick, just to clarify the status, what is the nature of that holding pattern you mentioned? Is it on the runway, ready for clearance for take-off by No. 10, or is it still in the maintenance shed getting its wings put on? Is it ready to be launched, or are we still awaiting some work to be done?

Mr Hurd: There is a little bit more work to do in terms of dotting the Is and crossing the Ts. As you would expect, as a former Minister, it is quite a complicated, across-Government process, but it is well advanced. My language about a holding pattern was a little loose. The reality is, as you know, flowing from yesterday's announcement, the Government have to take a view on what goes out into the public domain before the election or after the election.

Q265 **Chair:** The criticism from certain stakeholders has been that climate change has been downgraded as a result of the new Government, symbolically, like in the loss of the phrase "Climate Change" in the name of the Department. If the clean growth plan is not issued this side of the general election, that sends out a very clear message in terms of priorities for this Government, doesn't it?

Mr Hurd: No, I would dispute that. The first action of my colleague Jesse Norman, who has taken an unusual vow of silence so far—

Chair: It is quite impressive, yes.

Jesse Norman: Very unfair.

Mr Hurd: One of his first actions, within hours of being made a Minister, was to put into law the fifth carbon budget. We accelerated the process of ratifying the Paris agreement. We have been extremely active on the EU stage of negotiations of the instruments that flow from Paris, and very actively involved in the Marrakech process. In terms of domestic policy, we have a continued commitment to renewables, not least through the auction that is under way at the moment.

I can point to genuine proof points of a Government taking radical steps in terms of fulfilling our carbon objective, not least because we are very clear, through the industrial strategy, as we look at the future shape of the economy, that decarbonisation and digitalisation is going to be a very important driver of good jobs. When the Secretary of State and I visited the Siemens plant in Hull and opened it, we were there to celebrate 1,000 jobs. Around 27,000 people applied for those jobs in Hull and those jobs are going to change. This is what underpins our ambition; these are a source of good jobs.

Greg Clark: Just on our day-to-day work, the industrial opportunities and the research and development and innovation opportunities from energy are now absolutely central in the work of the Business Department as well as the old DECC Department. We have seen some really exciting announcements in the last year, such as substantial funds for research and development into battery technology. There could not be a better example of things that would not be happening, certainly at the same pace and force, had not the energy and climate change agenda been joined with the business and industrial strategy agenda, and it is being noticed. All of us have travelled around the world in recent months and this commitment is being remarked upon.

Q266 **Chair:** Secretary of State, can I move on to Euratom?

Greg Clark: Yes.

Q267 **Chair:** We have heard from the regulator and from industry, in the strongest possible terms, that we cannot leave Euratom and set up alternative arrangements in the two-year window that the triggering of article 50 presents. Would you accept that it is going to take longer than two years to set up new nuclear safeguarding rules?

Greg Clark: It is too early to make that definitive judgment. Obviously, we talk to the regulators, as you do. The context of Euratom, again, is not dissimilar to some of the other parts of our engagement with Europe we have been talking about. We have been very satisfied with the arrangements in Euratom. It has been a good framework for research and development and for the smooth functioning of the industry. The triggering of article 50 on Euratom is not because we have a fundamental critique of the way that it works. It was because it was a concomitant decision that was required in triggering article 50. The treaties are enmeshed in various ways, so we had to do it.

Q268 **Chair:** But separate. It is possible, is it not? We have heard legal advice to this effect, which is you can leave the European Union but remain a member of Euratom. That seems to be a very sensible approach. Why have the Government not pursued that?

Greg Clark: The reason was that that is a view, but it is a highly contested view. Essentially, the interleaving of various aspects of the treaties in practice could have meant that it was defective. The article 50 notification would have been defective had we not served it for Euratom as well. Therefore, we served it, but at the outset we said that we want to have continuity of co-operation and collaboration, and that is what we intend to achieve.

Q269 **Chair:** Is it possible that we could leave the European Union but delay our leaving of Euratom, subject to having alternative arrangements in place?

Greg Clark: Again, these are discussions that are about to get under way rather than have made material progress in the last few days. All of the options and contingencies we will have to explore from a position, as I said, of wanting to seek as much continuity as we can on this.

Q270 **Chair:** We heard some quite stark assessments about what would happen with a movement of nuclear fuel supplies if we were not to be a member of Euratom. What arrangements are being put in place to ensure that our nuclear industry can continue in the event of our not being a member of Euratom?

Greg Clark: Obviously, it is a very high priority that we have those arrangements in place. Through international agencies there are bilateral arrangements that can be put in place, but again we want to take the time to make sure that we get the best possible set of arrangements.

Q271 **Chair:** I have a constituency interest in this; I have a nuclear power station operated by EDF in Hartlepool. Are you saying that even though we can be outside Euratom, Hartlepool nuclear power station can continue to operate under the arrangements in respect of management of fuel stocks?

Greg Clark: We have to establish those arrangements. Clearly, having an agreed, internationally recognised regime for the supervision of nuclear materials is very important, so we have to put them in place, but I am absolutely certain that we will be able to do that.

Q272 **Chair:** You recognise the challenge in putting in place alternative arrangements, and in the absence of alternative arrangements the nuclear industry in the UK has to close down, doesn't it?

Greg Clark: No, there is no question of that. We are very conscious of the need to maintain the continuity of our arrangements, as I said. It is a very important set of institutions and arrangements that we have, and we will do what it takes to make sure that the industry can not only continue but, as the Committee well knows, flourish in the future.

Q273 **Chair:** Could that mean continuing membership of Euratom?

Greg Clark: I do not want to get into that, precisely because we have not started to establish, as in some of the areas that Nick has been talking about, the possibilities. However, the clear requirement is very evident: that we need not only to maintain but to allow the expansion of our nuclear industry.

Q274 **Chair:** You mentioned at the start international collaboration; that research and nuclear collaboration is really important. Do you anticipate that the JET project in Oxfordshire will continue? With regard to that ongoing collaboration in the nuclear space, what arrangements will be put in place?

Greg Clark: We are in discussions with the scientists there. It has been a very successful international cluster of research excellence. We very much want and intend that that should continue. The precise future financial arrangements for that would need to be discussed. It goes back to your very first question: one of the big elements of our discussions is going to be research collaboration, of which that is a primary example.

Q275 **Richard Fuller:** Can I go back to the functioning of markets and, in this regard, consumer protection? We have had evidence, largely from manufacturers, saying that they would like to continue using European standards. It enables them to achieve efficiencies and economies of scale in production. Is it important that we continue to maintain European standards of consumer protection in energy markets and energy products?

Greg Clark: Our reputation in this country for having high standards is well known and established. Sometimes they are domestically generated; sometimes they come from the EU. The approach that the Government are taking, as the Committee knows, through the great repeal Bill is to transfer the current status quo, the acquis, into UK law so that in the time that follows—again, in the circumstances, with particular forensic application—we can see whether we want to vary the approach or not. That can be done in slower time, but the starting point will be to transfer the current set of arrangements.

Q276 **Richard Fuller:** If the main manufacturers want to continue to achieve those economies by adhering to European standards, is it not likely, in practice, that they are going to continue to produce to those European standards? Effectively, what will happen is that we will lose our seat at the table in shaping those standards on a European basis. We will essentially just be taking whatever the residual EU says is right.

Greg Clark: You are absolutely right to focus on the issue of standards, and I hope the Committee will continue to do that, because it is one of the areas that can be overlooked. Our contribution to standard-setting has been one of the areas—from my experience of going to European Councils—that is most admired. As we were talking about in the context of the energy codes for interconnectors, we can contribute technical expertise in a collaborative way, which has been welcomed. This will be an area that is a source of opportunity for us.

You are right to say that many manufacturers will want to manufacture according to similar standards that apply to all of the markets they operate in. Obviously, some of those manufacturers will be selling some or all of their goods to non-EU markets, so one of the questions that arises is: would there be an advantage in any particular areas in allowing that in a way that membership of the EU does not? There is no single answer to all of this; it will vary from industry to industry and type of standard to type of standard. That, again, is the nitty-gritty that we are all going to be consumed with during the next couple of years.

Q277 **Richard Fuller:** That is true. Before those years of nitty-gritty, we have got a few weeks of promises, manifestos and big commitments. I recall in the referendum you were on the Remain side; I was on Leave, and now we are altogether in the best interests of the country. But one of the positions the Vote Leave campaign talked about was cutting VAT on household energy bills. You are going to talk about energy prices in a minute, Chairman. I think the idea of cutting VAT on household energy bills is a really good one. Will you be recommending that that should be in the Conservative manifesto?

Greg Clark: I will report your first bid for the Conservative manifesto to our colleagues.

Q278 **Richard Fuller:** But, more seriously, is that an issue that the Department has been considering?

Greg Clark: It is not something we have been actively looking at as a Department. In the future, what decisions we take will be our own to take. We will not be constrained, necessarily, elsewhere—but that is for the future.

Richard Fuller: Indeed, yes—perhaps the imminent future

Q279 **Chair:** Before we move on, can I ask a number of quick-fire questions about Brexit negotiations? Regarding the renewable energy directive, will you deny any reports that you want to scrap targets under the directive?

Is that true or false?

Greg Clark: As Nick says, we are a member until we leave, and that is the approach we take.

Chair: But in terms of after, I mean.

Greg Clark: We have not made any decisions.

Q280 **Chair:** No decisions. Thank you. We are leaving the European Union. There is some debate about the single market. What is your stance on the internal energy market? Will we be leaving that?

Greg Clark: Again, we have had an extensive conversation about that. As part of our discussion about our future arrangements with the European Union, I would emphasise the great advantages in having continued access to free markets, and that applies to energy as much as to other areas—and in many cases even more so, as in the case of the island of Ireland.

Q281 **Chair:** That links in with the final question I want to have on this section. I am uncertain where energy and climate change is in the list of priorities when it comes to negotiations. The Prime Minister bangs the drums a lot when it comes to freedom of movement and when it comes to, say, the European Court of Justice, but she has not really mentioned energy. In the overall mix, and in terms of making sure membership of the internal energy market could be a key priority, where is this in the overall list of negotiating points?

Greg Clark: It is a very prominent issue. We have had several substantial discussions about it. We talked about Northern Ireland, and obviously there is a particular application there that has been very prominent. All my colleagues are very aware and conscious of the importance of this area of policy in the negotiations.

Q282 **Chair:** Thank you. Secretary of State, can we move on to energy prices?

Greg Clark: Sure.

Chair: I asked you a question in the Chamber a month or so ago about energy price increases, and you said, "The Hon. Gentleman is absolutely right that that behaviour"—that is, price increases—"is unacceptable. It has been reported by Ofgem that there is no reason to increase prices. We have committed to a Green Paper on consumer markets, which will be published very shortly. The time is up for these companies." What do you mean by "the time is up"? How does that constitute action?

Greg Clark: The context of this, as the Committee knows, was that the CMA produced a report that identified consumer detriment to the extent of an average of £1.4 billion a year in recent years—in fact, it was almost £2 billion in 2015-16. They reflected on that detriment being found among those customers on the high-price default tariffs. We will make a response to that CMA report, and the answer that I gave to you in the Chamber was an indication that, when you are presented with that degree of consumer detriment, we have a duty to act—and we will do so in our response to that report.

Q283 **Chair:** Consumers are being fleeced now. EDF customers have faced a second price increase—the second in something like five months. That seems to be completely unjustified. You have spoken very strong words; you have even hauled energy companies into your Department. The Prime Minister has spoken very strongly—but we have had no action. How are you going to help energy customers?

Greg Clark: We will publish our response to the CMA report very shortly. The Committee will see, when it is published, that we will take very decisive action to address what even Ofgem, the regulator, has criticised. The chief executive of Ofgem said prices were difficult to justify.

Q284 **Chair:** Is your response to the CMA report in a holding pattern as well?

Greg Clark: It is in one of these categories. Rather as Nick was saying, when an election is called, there are a number of things that are in the final stages of preparation, and you need to reflect on whether they can be finalised in time. That is something, to be candid with the Committee, we are reviewing.

Q285 **Chair:** Secretary of State, as I said, you have said some really good, warm words, but there is no action. In terms of energy customers facing price rises now, what action is being taken—or are energy price increases justified?

Greg Clark: No. It is clear that the market is not working for those customers on the default tariffs. The CMA established that. That has been my very clear view, as expressed to this Committee and expressed to the House of Commons. When I say we have a duty to act, you will see that action. It will be decisive, and it will address this completely unacceptable detriment that ordinary working people have been suffering.

Q286 **Chair:** Is the regulator doing enough of what it can do, or is there a gap in the regulator's powers?

Greg Clark: That is the substance of the response to the CMA as to what steps need to be taken to prevent this happening. This is a regulated market, as the Committee knows. We have an energy regulator, and yet this detriment has been exposed and is ongoing, so clearly the system is not working and has not worked to prevent it. I am determined that that will come to an end.

Chair: There have been specific and measured policy responses that have been suggested. John Penrose has provided some really measured comments about this in the Committee Room. We will come on to those potential limited price caps with Anna's questioning.

Q287 **Anna Turley:** That is pretty much it, but, before I go on to some specific policies, I wanted to build on Iain's point about whose responsibility it is to fix this broken market. When we had the energy companies and Ofgem here, the emphasis was very much on consumers switching and that driving the market. For me, personally, representing members of the public, this feels like that is trying to put the burden on people who are just trying to get on with their lives and are not necessarily spending their day thinking about their energy provider. Whose responsibility is it to fix this broken market?

Greg Clark: Clearly, if it is broken, it is up to policymakers—of which I am one and the regulator is another—to address it. I was very interested in studying the CMA report, as I am sure the Committee was. One of the things they said was that suppliers have "unilateral market power concerning their inactive consumer base" and suppliers have the ability to exploit their position by pricing their standard variable tariffs "materially above a level that can be justified". It seems to me that that is a very strong indictment of the current structure of the market. As I say, my view is that that requires a decisive response to protect the interests of customers.

You mentioned people who may be struggling to get by. Of course, it is the poorest households in the country who not only spend the most as a proportion of their income and expenditure on energy but are the least likely to switch, for a variety of reasons. It is my view—I am candid with the Committee—that it is not acceptable that they should be exploited in that way.

Q288 **Anna Turley:** Obviously, one of the policies that has been proposed, not least by John Penrose, is this idea of a cap on the SVTs—6% above the cheapest deals has been mentioned. Is that the sort of policy proposal you would look at including in your manifesto or take forward in the next few weeks?

Greg Clark: You will forgive me if—having said that we need to reflect on the best arrangement to make this response, given the events of yesterday—I do not partially reflect on individual aspects. Jesse Norman may want to comment, as he responded to that debate. It was a well-subscribed debate, and there were views from all sides of the House that this should not continue, and some of the remedies that were proposed, including by Mr Penrose and others, commanded attention.

It is worth saying that of course the CMA, after its two-year investigation, was in effect in two minds about the remedies. There was, relatively unusually, a minority report from one of the members that suggested that more decisive action was needed. A lot of thoughtful, evidence-based suggestions have been made, to which we will respond very shortly.

Q289 **Anna Turley:** Just to press you on this, is there a need for the state to act; not just the regulator but policy change from Government to fix this?

Greg Clark: I am disappointed that the energy companies have not exercised the responsibility they ought to show to their customers, many of them vulnerable, on very high default tariffs. They have not done that and, in a market that has been regulated since privatisation, it is there for a reason. If the competitors in the industry do not see that this is behaviour that is damaging to consumer interests—and I do—then we will act.

Q290 **Chair:** John Penrose led an excellent debate a couple of months ago, and his contributions were first-class. There was absolute unanimity in the House, across all sides, about the need to act. But you have not acted, Secretary of State. One of the arguments for EDF's price rise last week—its second—is that it is pre-empting any Government action. Your delay is putting up energy prices for customers, so why can you not act now?

Greg Clark: There is no delay. The response that we will make, you will see, will be muscular and strong. It will apply to all of the companies that are disadvantaging consumers in this way.

Q291 **Chair:** What happens during the election period if further price rises take place? Will there be any retrospective action from any subsequent Conservative Government?

Greg Clark: What I reflected on in the state of the regulatory regime is that the market is not working, and clearly the current regulatory arrangements have not been adequate to deal with it. That is obvious, so we are going to need to change that. This Committee knows that in order to do that you have to make some changes to the regulation. You cannot do it automatically, so we will need to propose some changes to be made that will then be enacted. But I draw from the consensus that you noted in that debate that there is overwhelming appetite to sort this problem out once and for all.

Q292 **Richard Fuller:** I am intrigued by this issue about intervention, because we are now in an era, of course—certainly until the general election was called—of the Government's industrial strategy. This is a big shift in the political terms of trade that has been announced by the Prime Minister, essentially to get an economy that works for everyone and a more interventionist Government. Here is the first, lead example, perhaps, of part of what that might mean in terms of direct intervention. I am very interested in some of your thoughts about this. You said in response to an earlier point that if it, meaning a market, is broken, it is the role of policymakers—i.e. you—to fix it or to sort it out. What, in your mind, makes a market "broken"?

Greg Clark: In this case, we have had a two-year investigation by the Competition and Markets Authority that established that customers on default tariffs have been paying, on average, £1.2 billion a year more than they should. In the year before the report, it was £2 billion a year. That seems to be incontrovertible evidence of customers, many of them vulnerable, being abused by their suppliers, and it is not on.

Q293 **Richard Fuller:** Abuse of consumers—essentially, taking additional money out of consumers—is probably the most important aspect to you of what a broken market would be.

Greg Clark: There are different aspects in different contexts, but in this case you mentioned, Richard, that the Prime Minister has committed herself to creating an economy that works for everyone. Evidently, when ordinary consumers are paying more than £1 billion more than they should, it is not working for them.

Q294 **Richard Fuller:** Are you going to be relying on the Competition and Markets Authority to bring this to your attention so you can act? Are you going to rely on the regulators? Are you going to rely on the media? What is going to prompt you, as Secretary of State, to take the action because now you are convinced the market is broken?

Greg Clark: Again, when we make our response to the CMA report, I will set out how we intend to take action on the case that has been so overwhelmingly put. I do not want to specify that in detail today, but you can rest assured that we are not going to simply note the findings and set it aside.

Q295 **Richard Fuller:** It is quite broad. Consumers feel ripped off by a whole bunch of stuff. They feel ripped off by banks. We are ripped off by our cell-phone companies when we get crap coverage—when we get poor coverage, I should say.

Chair: You can say what you like these days.

Richard Fuller: The good people of Bedford would not appreciate it. But people feel that they get poor coverage and they are ripped off for that. In terms of cable provision, they do not have enough competition and choice; they feel ripped off because of that. Can we anticipate, with you as Secretary of State, with this robust industrial strategy, that you are going to be taking out your club on behalf of consumers in all those markets and intervening and bashing the businesses around so that they start being more responsible?

Greg Clark: I have a couple of things. The first is that a foundation of our success as an economy is that we have competition. Competition is, it seems to me, the best way not only to secure good prices but to get innovative new products and services into the market. A big part of the industrial strategy is to promote competition. But where markets are not working, we have to be prepared to set a framework that corrects that.

Energy is of particular importance, given that it is an essential. You cannot avoid consuming energy, and it is a big part of the budgets of, especially, the lowest-paid people. We have got a framework of scrutiny of these markets that has shown it is a problem, so it is absolutely right to take action there. In terms of the publication that we have been talking about, I have said from the outset that we would bring forward a Green Paper on this issue during the spring. As I say, events have intervened within that spring, and we will need to reflect on the timings of that, but part of the wider consultation we want to have is the future regulatory environment and institutional environment in which markets operate, and the Chancellor talked about that in his Budget. Again, that is something we will publish.

In the UK we have been an innovator in competition policy and in consumer policy. Privatising industries was internationally recognised and renowned, but so was the regulatory regime we put in where there was market power that could be used against consumers. As industries develop, the type of regulation that is needed changes from time to time. What we see in the energy market is quite vigorous competition for those consumers who have the wherewithal to be able to switch and who are good at accessing the internet to make changes. But consumers who, for one reason or another, are not able to be quite so active and fleet of foot are being milked. That has a particular application in the energy sector, but in the context of an aspiration and a determination to create an economy that works for everyone, through the consumer Green Paper, we want to reflect on how we can make sure our very highly regarded framework for markets continues to be so.

Jesse Norman: Could I just add something to that?

Chair: It is nice to see you, Minister.

Jesse Norman: I took the view that being ignored for an hour was one thing, but being ignored for two might be enemy action, Chairman, so I hope you will not mind if I interrupt. Just to frame one thing in response to Richard's point and lift the argument slightly—

Chair: Because he is in the gutter.

Jesse Norman: —as he has done. He is essentially asking the question, "What is the point of a market?" Let us just think about that for a second. A market has a social function; a market does not just exist as something people worship or reify. It exists for a social purpose. No market is the same as any other market, and no market is independent of state activity.

Every Government has to ask itself the question, "What is this market doing?" It is the strength of this industrial strategy that it is, for the first time, being fully explicit in asking the question, "Why should we be thinking about this market and what is it trying to do?" For a consumer market, the primary test is whether it satisfies the needs of consumers. In the energy case, it is clearly not doing so. But of course these markets are interlinked with each other. One of the questions you might then want to ask is about how it links to investment in the industry and further issues upstream as well.

Just to come to the point you have raised, in all the markets you have described, Richard—banking, cable, telephony, mobile signals and this one—the key idea is the idea of rent extraction. Every single one of these markets is a market in which a set of privileged insiders, often with relationships with Government, is able to extract rents from consumers in that market. You can see that successive Governments have wrestled with this issue in finance, and it is a credit to them that they have also wrestled with it in energy, to seek to address this issue and to limit rent extraction, not always with great success.

They are fiendishly complex. The situation is getting worse, because the effect of the internet is to increase the amount of knowledge the players on the other side have of individual behaviour and, therefore, potentially, to increase the asymmetries of power and information between the two sides. That is why the Government's task becomes proportionately harder and yet equally important.

Q296 **Richard Fuller:** The issue, if I may say so, is not that this is an ever-present aspect of what the Government should be looking at, to ensure that, as you would call it, rent is extracted from consumers; it is that the position of this Government is far more robust in doing that and it wishes to be more active. It is changing or at least signalling that it wishes to change the rules of the game. What I am trying to understand is what is motivating that—we have had a very clear explanation from the Secretary of State and from you about that—but also what the rules are.

People who operate in markets who go about their daily business providing services for people with good intentions—i.e. those people who are innovating and bringing technological change—will look at Government to have that word we heard so much in reference to Brexit earlier on: certainty, so that they will invest. If they are not clear about what the Government is doing, is there not a risk that our innovation, our investment and the future for jobs and prosperity in this country will be at risk of not growing and not succeeding as much as it has in the past?

Jesse Norman: We have been spoiled for answers given by the Secretary of State, so let me just respond to that for a second. The levels of innovation, business activity and energy and drive we have seen in this country have been extraordinary, and they are continuing at the moment. As you may have seen, there have been significant investments. As the Secretary of State mentioned a few minutes ago, there is the new investment in an electricity interconnector, which has happened in the full knowledge that we were on course for Brexit.

Yes, this issue is well understood on the part of Government, but it is also well understood that the point you made more widely is also correct, which is that you have to set sustainable rules. You cannot be beating up particular companies. You have to set rules for industries that provide stability and long-term potential.

Greg Clark: Just to expand the point a little, a lot of the work of this Committee recently has been reflecting on the frameworks in which we operate. You talked about corporate governance, for example, where we have succeeded as a country because we have had high standards that have been kept up to date. When it comes to consumer markets, just like corporate governance, every so often you should take stock and see whether things need to be updated for the future in the predictable way that Richard suggests is appropriate for long-term decision making.

Chair: Jesse articulated beautifully ideas of philosophy and political economy. You should write a biography of Edmund Burke or someone. You would go far, I think.

Q297 **Antoinette Sandbach:** I wanted to come back to the market, because it is not just about pricing. The predecessor Committee, dealing with Energy and Climate Change, heard very clear evidence about a lack of trust in the market, particularly of the Big Six. There are huge volumes of complaints relating to the Big Six that go off to Ofgem. That clearly indicates that consumers are being disadvantaged not only by pricing but by service.

I know, for example, that there needs to be much better information out there about new entrants to the market, where, particularly for low-income customers on prepayment meters, there are some really good new companies that have come to the market that need to be promoted. I am sorry; I am on a bit of a rant, because I feel very strongly about this. Also, there are, in effect, these sticky customers who, even though there are price comparison sites and clear information in the public domain, will not move, which is partly due to the other issues around complaints and lack of trust.

I know, because I tried to switch recently. My energy company phoned me up to say I was moving from a fixed-term rate to a standard variable rate. I said, "Could I have what you are telling me in writing, please? Could you give me the quote you are giving me over the phone in writing?" "No," they said. You have energy companies making promises on the telephone that are not then delivered to the customers, which completely undermines the trust in the whole system. When you are looking at your response to market abuse, if you like, in relation to pricing, will you also be considering other non-pricing issues that affect the operation of the market, too?

Greg Clark: Yes. It is not a coincidence that a disadvantage, a detriment, to consumers on price is associated with a poor reputation for service on the part of many of these companies. You are absolutely right that the responsiveness of players with market power, in particular, needs to improve. In the response that we will make to the CMA report, we will reflect on other ways in which that could be advanced, exactly in the way you say.

One of the things that is about to change the retail energy market is smart meters and, in particular, the ability to have the data on use properly analysed and open to being voluntarily shared with alternative providers so that they can give an accurate quote. A lot of electricity readings are still based on estimates, for example, which makes it very difficult to say whether you are going to be better off elsewhere. That will be an important part of it. In the wider Green Paper on consumer markets, these are some of the areas we will want to reflect on.

Q298 **Antoinette Sandbach:** I know I am certainly looking forward to the second generation of smart meters being rolled out, but in a constituency such as mine, which has large areas of no internet and only 2G mobile signal, going back to the problems Richard raised earlier, that circumstance in effect prevents those smart meters operating. The joined-up thinking in terms of investment in digital infrastructure and investment in energy infrastructure is clearly key; if consumers are going to have that knowledge, that will allow them to utilise smart meters in an appropriate way.

There is also an issue around the trust from the public in smart meters and how their data will be used. Is the Government taking steps to effectively pre-empt concerns people may have about the sort of box in their home that monitors all their data usage and how that may be abused, particularly when you are looking at the current issues with lack of trust in the standard energy market?

Greg Clark: Absolutely—that is a very important aspect. The fact that it is regulated and separately held provides that basic assurance, but you are absolutely right, Antoinette: it is important to communicate that to consumers so that they can feel confident. That is absolutely right.

Q299 **Chair:** On the issue of smart meters, Secretary of State, are you confident that target of smart meter roll-out for every home by 2020 will be met?

Greg Clark: Yes; it is a statutory requirement.

Q300 **Chair:** What happens if it does not happen?

Greg Clark: Again, one of the functions of the regulator is to require the operators, the energy companies, to supply them. I have been very clear with them that that is a statutory obligation enforced by the regulator, and I have made it clear to the regulator that I expect that to be met.

Q301 **Chair:** You are not thinking about relaxing that to 2021 or 2022 at all.

Greg Clark: No, that is not what I am thinking.

Q302 **Chair:** I have a couple of quick questions before we move on, Secretary of State. You hauled in—it is a good phrase to use—energy companies in November in response to reports about higher than reported profits and maybe milking customers, as you said. What explanation did the energy companies give you?

Greg Clark: The reason I invited them—

Chair: You did not haul them in.

Greg Clark: They responded positively to the invitation. It was because, having read the CMA report and having made a commitment to produce a

Green Paper in the spring, I wanted them to have the chance to explain why their pricing behaviour for consumers on the default tariffs was what it was and to share my view that loyal customers should not be mistreated.

In the case of one of the companies, they have frozen prices, but the other five of the Big Six have increased them. The explanations they gave have not dissuaded me from the response that we will make, as intended, in terms of the timetable in the spring.

Q303 **Chair:** Were any actions decided as a result of that meeting?

Greg Clark: Again, these are separate, independent companies. They need to make their own decisions.

Q304 **Chair:** They are operating in a regulated market.

Greg Clark: Yes, they are operating in a regulated market. I do not have the ability to order them, with any statutory force, to do anything specific. I was very open with them, as I have been with this Committee, about how I had read the reports; I was aware of the detriment; I regarded it as unacceptable, particularly to loyal customers on default tariffs; and the Prime Minister had committed to a Green Paper in the spring that would address this. They were aware of my intention to act.

Q305 **Chair:** They just ignored you.

Greg Clark: They make their own, separate decisions. As I say, I do not have the ability to direct their individual prices, but I equally have the ability to respond, as a Government, to what I regard as a deficiency in the market.

Q306 **Chair:** When we had the chief executive of Ofgem before us a couple of months ago, he said that they, as the regulator, have the power to cap energy prices. I believe they have done so on prepayment meters. But that is a policy decision for the Government. Would you support Ofgem in exercising the power they have?

Greg Clark: Again, I do not want to pre-empt what will be a response to these issues, which I hope will come very shortly.

Q307 **Chair:** But would you accept the chief executive's assertion that it is a policy decision by the Government rather than something the regulator chooses not to do?

Greg Clark: I think I have been very clear that the Government intend to act on what is a flagrant mistreatment of customers.

Chair: Can we move on, briefly, to your welcome establishment of the inquiry into the NDA's contract for the decommissioning of the Magnox sites? As I said, this is really welcome and we really would, as a Committee, like to support you when it comes to this. Richard, you have a number of questions.

Q308 **Richard Fuller:** If I could reiterate what the Chair has said, your robust statement in the House of Commons about this was welcome on all sides. Our own Inquiry is going on. Obviously, this Committee would like to play a role in that. We would hope that your ministerial team would be able to co-operate with us, obviously at a time to be sorted out appropriately with your own inquiry, so we appreciate that very much.

The issue at hand is the very substantial tendering process—£6.1 billion—that was conducted between April 2012 and the award in September 2014. In the House of Commons you said it was "a defective procurement with significant financial consequences". The direct consequences of that are £85 million having to go to one of the providers, another £12.5 million going to another. That is nearly £100 million of taxpayers' money essentially wasted on this defective procurement process. Have I got those numbers correct? Is that your view about the process?

Greg Clark: Yes. The settlement was approaching £100 million.

Q309 **Richard Fuller:** Is this unusual? We had such a robust response that one must anticipate that this wasting of public money was a significant event in Government.

Greg Clark: It was hugely significant. I was appalled to discover that the litigation that was going on had resulted in very substantial criticism from the judge of the procurement process. My view is very clear: when you have public bodies that are responsible for taxpayers' money, there is an absolute obligation to make sure that is handled with regard to value for money as well as the important object of the exercise, which is to safely decommission the Magnox sites.

Q310 **Richard Fuller:** You went on in your statement to mention two outcomes that you wanted from this. First, lessons should be learned and they should be understood. That is good, and we hear that often when mistakes are made, even one the size of this. You also said that those responsible should be properly held to account. Could you just give us some guidance? Does that mean civil servants and Ministers?

Greg Clark: The decision I took was to have an independent inquiry under Steve Holliday, who is a figure of great experience and renown, totally independent of Government. His remit is to look at the whole affair, from cradle to grave, as it were, and to have in scope anyone who was—

Q311 **Richard Fuller:** No stone left unturned. Does that include Ministers?

Greg Clark: It includes Ministers as well as any third parties.

Q312 **Richard Fuller:** Of course, at that time the DECC Secretary was Ed Davey. At the time, talking about Hinkley Point, he said there would be "a better future for British nuclear firms" because the Business Secretary, Vince Cable, and he had "published an industrial strategy for the UK's nuclear industry". You said that the cancellation of the contract required sign-off by you, the Secretary of State, the Chief Secretary to the Treasury and the accounting officer for your Department. Is it fair to assume that the Ministers responsible for this colossal waste of public money were Vince Cable and Ed Davey?

Greg Clark: The reason I have responsibility is because it is part of the energy portfolio, which used to be in the Department of Energy and Climate Change. The sign-off process, as I understand it, was with the former DECC and the Treasury.

Q313 **Richard Fuller:** Just to be clear, Ed Davey at the time said the "industrial strategy for the UK's nuclear industry" was agreed with the Secretary of State for Business. Just to be clear—I want to be absolutely clear, because this is such a significant issue about waste of public money—if we are looking at no stone being unturned and we are looking at ministerial responsibilities, given what you were involved with in cancelling the project, can you advise the Committee which Ministers at the time were involved in the tendering process and sign-off of that?

Greg Clark: It is for Steve Holliday, in his inquiry, to ascertain that, but it is a matter of record that during that period it was the Department of Energy and Climate Change that was the approver of the tendering process that was defective. But one of the things I have specified in my statement to the House and to Mr Holliday is that he should make his report available to this Committee, or its successor. It is obviously for the Committee and its Chair to decide, but I would hope—this was my intention in naming the Committee—that the Committee would take a great interest in scrutinising it.

Chair: That was very welcome—very welcome—Secretary of State.

Richard Fuller: We appreciate the clarification of the responsibilities. Thank you.

Q314 **Chair:** I have a final question, Secretary of State, in terms of the announcement about Toshiba last week and the sale of Westinghouse. Are you concerned about the future of the nuclear industry and what will happen to the Moorside project as a result of what is happening with Toshiba?

Greg Clark: Clearly, the problems Toshiba have been undergoing are significant, as is evident to all. It is important to emphasise that in the case of Moorside it is a consortium, NuGen, that has the proposals to develop that site. The membership of that consortium has changed over time. Toshiba were not in from the very beginning. The process is developer-led; the developer is NuGen. It is for them to consider what parties might want to be co-investors with them, but, from discussions I have had with NuGen, they are absolutely determined to continue what will be a very important contribution to our power supply.

Q315 **Chair:** You are not concerned about this; you are fairly relaxed.

Greg Clark: As I think you know, Chairman, I believe in taking an active role in these matters. The week before last, I went to Korea, where I met some prospective Korean investors. I was keen to emphasise that any decisions on the part of the consortium as to who is part of it are for the members of the consortium, but rather than simply wait to hear, I wanted to establish contacts with prospective investors. But that is some way from being anything that has been agreed. It was reported publicly that they might be interested, so I was keen to establish contact with them.

Q316 **Chair:** Ministers, thank you. It has been a delight trying to interrogate and scrutinise you. Nick, our dalliance with a nice horse—going back many years—is something I will remember for a long time. Jesse, those machinations when you and I were both trying to become Chairs of Select Committees would not have disgraced a Borgia pope in a renaissance conclave.

Secretary of State, you have been nothing but courteous and open with me personally and with the Committee. We wish you, whatever happens, the very best. Thank you for coming before us and thank you for the work you have done on industrial strategy, on corporate governance and on active intervention.

Greg Clark: Thank you, Iain. Can I just repeat on behalf of all of us that we are very grateful for your expert stewardship of this Committee and the important work you have done in Parliament. Thank you very much.

Chair: Thank you.