Business, Energy and
Industrial Strategy Committee
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Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

17 November 2020

Dear Rishi

Post-transition period regime for UK carbon pricing

On 12 November the BEIS Committee took evidence from the Rt Hon Kwasi Kwarteng MP on the UK's post-transition regime for UK carbon pricing. The Minister suggested that we contact you directly about this matter, as he was unable to answer a number of our questions himself.

During our inquiry it has become clear that the business community are concerned by the ongoing uncertainty about whether the UK will adopt a UK ETS or a Carbon Emissions Tax when the transition period ends on 1 January. It has also been clear that stakeholders do not consider the Government's decision-making process on this matter to be sufficiently transparent. I would therefore be grateful if you could provide clear answers to the questions listed below. A swift response to these questions, and indeed a decision by Government, will help to ensure that British industry is able to prepare for and manage the impacts of the changing carbon pricing regime on the 1 January.

1. Please set out your preference for the future carbon pricing scheme (a UK ETS linked to the EU ETS, a standalone ETS, or a Carbon Emissions Tax), and the reasons for this.
2. By what date will Government set out its decision on whether to implement a UK ETS linked to the EU ETS, a standalone UK ETS or a Carbon Emissions Tax from 1 January?
3. By what date will Government confirm whether its longer term commitment is to seek a UK ETS linked to the EU ETS, should one not be agreed before the end of the transition period? If the Government chooses to adopt a Carbon Emissions Tax on 1 January, would the Government also continue negotiations on linking the UK ETS (as legislated) with the EU ETS?
4. How are BEIS, HMT and Cabinet Office – and any other involved departments – working together to manage these decisions? With which Department does responsibility for the final decision lie? How are BEIS and HMT liaising to minimise expenditure on whichever solution is not ultimately adopted?
5. Why is carbon pricing the only policy area for which the Government has developed not only a Common Framework, but also an alternative reserved policy solution (i.e. the Carbon Emissions Tax)?
6. Do you have anticipate any difficulties with the operation and/or effectiveness of a standalone UK ETS?

7. Please provide a substantive explanation of how the views of affected stakeholders, including the Devolved Administrations (DAs), are being taken into account on this decision. If the Government does not plan to actively engage the DAs in the final decision, please explain the rationale for this and how you are managing DA involvement, given the direct role that they will be required to play should a UK ETS be adopted.

8. What controls will the Government use to ensure that the new carbon pricing scheme is aligned with the net zero target and the 6th carbon budget? Do you plan to extend the scheme to further sectors in support of the target?
9. How will you ensure that the carbon pricing scheme does not undermine the decarbonisation targets set by the devolved administrations, including those that are more ambitious than the UK-wide target?
10. How will the Government reduce the risk that future administrations might seek to water down the ambitions of the Carbon Emissions Tax?

Please can I have answers to the above questions by no later than 27 November.

Darren Jones

DARREN JONES MP
CHAIR, BUSINESS, ENERGY AND INDUSTRIAL STRATEGY COMMITTEE

CC. Rt Hon Mel Stride MP, Chair of the Treasury Committee