

European Scrutiny Committee

House of Commons London SW1A 0AA

Tel (020) 7219 3292 Email escom@parliament.uk Website www.parliament.uk/escom

From: Sir William Cash MP

20 October 2021

Rt Hon. Greg Hands MP

Minister for Energy, Clean Growth and Climate Change

Department for Business, Energy & Industrial Strategy

1 Victoria Street

London SW1H 0ET

10875/21: Proposal for a Directive, amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757 on the monitoring, reporting and verification of carbon dioxide emissions from maritime transport (41886)

We considered your predecessor's Explanatory Memorandum (EM) on the above document at our meeting of 20 October 2021.

The proposal to revise the Emissions Trading System forms part of a wider package of proposals tabled by the Commission. We have separately considered the proposed changes to the Energy Taxation Directive and will consider the proposed Carbon Border Adjustment Mechanism (CBAM) in due course. For that reason, we are not pursuing outstanding matters on the CBAM with you in this letter even though the proposal was mentioned in your predecessor's EM. The EM raised a number of outstanding issues, which we explore below.

We noted some uncertainty as to whether Northern Ireland would be required to spend all of its funding derived from auctioning allowances on climate-related activities. Why would the provision not apply to Northern Ireland, were it to be included in the final text of the Directive?

We also noted with interest the Government's intention to set out its aspirations to lead the world on carbon pricing and the Government's consideration of expanding the scope of the UK ETS. We commend the

Government for its ambitious aspirations, which are very important as the Government prepares to preside over the COP 26 climate negotiations. While we acknowledge the Government's recent Net Zero Strategy, we note that it did not set out any further detail on the Government's plans for the UK ETS. We therefore look forward to seeing further details of the Government's intentions in due course. We will be interested to see the extent to which the UK's approach differs from that of the EU.

Given the climate-related commitments in the UK-EU Trade and Cooperation Agreement, we ask you to update us on the nature of the cooperation that has taken place to date on carbon pricing and the progress made on linking the carbon pricing systems.

We are aware that, over the last few months, several of the Specialised Committees established under the TCA have begun to meet. We noted that the first meeting of the Trade Specialised Committee on the Level Playing Field met on 12 October and considered—among a number of issues—the UK's "climate agenda" and the EU's package of energy and climate proposals. Was there any discussion about the respective EU and UK approaches and, if so, we ask that you signal the respective areas of interest.

Finally, it is of course the case that the Commission has presented a coherent package of policy measures, which are linked in some respects to the ETS proposal and which we expect to at least inform UK policy. We ask that you share with us your view on the overall package—other than the Energy Taxation Directive and Carbon Border Adjustment Mechanism—and identify issues of particular interest to the UK, such as new language requiring Member State action to boost offshore renewable energy and the Commission's approach to aviation and shipping emissions. The latter may directly affect the UK where the EU's measures apply to journeys between the UK and the EU.

We look forward to a response to our queries by 24 November 2021.

I am copying this letter to Darren Jones MP, Chair of the Business, Energy and Industrial Strategy Committee and Rebecca Davies, Clerk of that Committee; to Rt Hon. Philip Dunne MP, Chair of the Environmental Audit Committee and Martyn Atkins, Clerk of that Committee; to Lord Kinnoull, Chair of the House of Lords European Affairs Committee, and to Nick Boorer, that Committee's Clerk; to the Parliamentary Scrutiny team in your Department; and to Les Saunders in the Cabinet Office.

CHAIR