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Gordon Lindhurst MSP
Convener
Economy, Energy & Fair Work Committee
Scottish Parliament

1 March 2019

Dear Gordon,

UK-DEVOLVED ADMINISTRATIONS MINISTERIAL FORUM ON EU EXIT: ENERGY & CLIMATE CHANGE

This letter updates the Committee on the key points from the inaugural UK Government and Devolved Administrations Ministerial Forum on EU Exit: Energy & Climate Change meetings, held on 7 February 2019. A subsequent follow-up meeting was held on 25 February to update on action.

At the 7 February meeting, we represented the Scottish Government. Other attendees included: Claire Perry, Minister of State for Energy & Clean Growth, BEIS (in the chair), Robert Jenrick, Exchequer Secretary to the Treasury, HMT and Lesley Griffiths, Minister for Environment, Energy & Rural Affairs, the Welsh Government. In the absence of Ministers from the Northern Ireland Executive, senior civil servants from the Northern Ireland Civil Service were in attendance. The same attendees were present at the 25 February meeting except for the Cabinet Secretary for Environment, Climate Change & Land Reform, and the Exchequer Secretary to the Treasury, who were unable to attend.

The main items discussed at both meetings were: impacts of a ‘No Deal’ EU exit on the energy sector, and future governance and consultation on sectors covered by the EU Emissions Trading System, post-EU exit.

During the meetings, we set out the Scottish Government’s continued opposition to a ‘No Deal’ EU Exit, and the significant risks that it would present for the energy sector as a major share of the Scottish economy. In particular, we stressed the need to avoid significant and undesirable risks, such as supply disruption, restricted workforce mobility, and set out our concerns about the impact on vulnerable fuel poor consumers in rural or off-gas grid areas of any significant price increases, and the risks to emerging renewables technologies such as marine energy, of any abrupt loss of EU funding beyond the UK Government guarantee to 2020. These concerns were echoed by the Welsh Government.

UK Ministers have sought to provide assurances that they expect energy supplies across all fuel types (electricity, gas, heating oil, LPG, LNG and biomass) to continue to be secure immediately in the event of 'No Deal', however they will be undertaking more work to understand any price impacts following 'No Deal', most likely as a result of any depreciation in the value of sterling, for those fuels traded on international markets.

We also discussed proposals for long term governance of the EU Emissions Trading System, where options include: remaining in the EU ETS (Phase IV), a UK ETS linked to the EU ETS, a standalone UK ETS, or a UK carbon tax. As the Committee knows, emissions trading is a devolved matter, and during discussion we stressed to the UK Government the need for proper joint governance arrangements and joint-decision making on the future of the traded sector – and on ensuring proper accountability to devolved legislatures – using existing provisions for emissions trading in Part 3 of the Climate Change Act 2008 as a basis.

During the meetings, UK Ministers indicated that in the event that the UK can no longer participate in the EU ETS after EU exit, their preference would be for a UK ETS linked to the EU ETS. The Scottish and Welsh Governments indicated their willingness to support such an approach that retains a commitment to emissions trading, and future access to EU and global carbon markets under the Paris Agreement. The Scottish Government's support for a UK ETS linked to the EU ETS would also be conditional upon the UK Government guaranteeing that an equivalent UK share of funding to the €9 billion of EU ETS Innovation Fund was available to support industrial decarbonisation through technologies such as carbon capture and storage.

We remain concerned, however that the UK Government has refused to rule out the option of a carbon tax as a long term alternative, in the event that it is not possible to conclude a UK ETS linking agreement with the EU. We remain concerned that the 'No Deal' carbon tax already provided for within the Finance Act 2019 (following the Scottish Parliament's scrutiny of the associated SI on emissions monitoring, reporting and verification last autumn), could then, de facto, become a permanent alternative.

We reiterated our opposition to any proposal to replace the ETS with a long term, reserved carbon tax, and the unacceptable incursion this would make on devolved competence. HMT Ministers have not yet set out how they would ensure that such a tax would be accountable to devolved governments and legislatures if it were to replace devolved emissions trading powers, in spite of assurances given in the Joint Ministerial Committee (EU Negotiations) Communique of 16 October 2017, that any new frameworks would 'lead to a significant increase in decision-making powers for the devolved administrations'. We are continuing to resist any attempt to replace devolved emissions trading powers with a reserved carbon tax, and are happy to keep the Committee updated on the progress of these negotiations, given the previous concerns that it raised during the scrutiny of the 'No Deal' SI.

The UK Government has offered further meetings of the quadrilateral to take place on a regular basis, with the next meeting expected in early March for further discussions on the EU ETS. Further meetings are planned on other EU exit issues.

We hope this summary is helpful. A letter to the Convener of the Environment, Climate Change & Land Reform Committee in similar terms has also been issued.

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Your sincerely

Kind regards

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