12 October 2018

Dear Claire and Philip

EU EMISSIONS TRADING SYSTEM – ‘NO DEAL’ TECHNICAL NOTE PUBLICATION

Following the publication of the Climate Technical Notice, containing your proposals for a ‘no deal’ scenario, we are writing to set out our continued concerns at the UK Government’s handling of the EU exit negotiations regarding sectors covered by the EU Emissions Trading System (EU ETS). The background to our argument is below but, in short, the Scottish and Welsh Governments insist that accountability to devolved administrations and legislatures is maintained. In parallel, immediate Ministerial discussions are needed on the long term arrangements.

Emissions trading contribution to our climate goals
Emissions trading policy is devolved within Wales and Scotland, and we rely upon EU ETS participation to meet a significant share of our emissions reduction efforts (56% and 35% respectively in 2016). In the two years since the EU referendum in June 2016, and now only six months away from EU exit on 29 March 2019, we have still not had any formal Ministerial discussions on options for future participation in the EU ETS.

The Scottish Ministers wrote to the UK Government on 31 October 2017, reiterating our preference for continued participation in the EU ETS and requesting urgent formal Ministerial discussions between the four administrations to explore the Brexit EU ETS scenarios. Although your reply of 2 November 2017 offered a call, a formal Ministerial discussion has yet to be arranged ten months later.
Response to the UK Government’s no deal approach to EU ETS

The UK Government’s approach to the EU ETS in the ‘no deal’ scenario set out in the Technical Notice replaces the long-standing arrangements for emissions trading with a carbon tax. This replaces a devolved mechanism, collectively agreed by all four administrations, with a tax reserved to HM Treasury in which devolved administrations have no involvement. This automatically removes any accountability to the devolved administrations and legislatures for emissions reduction through this carbon tax, despite our statutory obligations under our climate change legislation. It is plainly unacceptable for the UK Government to seek to replace long-standing emissions trading arrangements – reached by agreement between all four administrations – with a unilateral carbon tax, and to do so without any discussion at Ministerial level.

The UK Government’s continued prevarication on its approach to emissions trading, and its refusal to have a formal Ministerial discussion, means there is now insufficient time to properly design alternatives in a ‘no deal’ scenario. Presenting a new carbon tax as a fait accompli, highlights the UK Government’s cavalier approach to the impacts on the traded sector and its flagrant disregard for accountability to devolved administrations and legislatures.

Therefore the Scottish and Welsh Governments insist that accountability to devolved administrations and legislatures is maintained and immediate Ministerial discussions are held on the future arrangements.

Impact of ‘no deal’ approach
Stakeholders are increasingly concerned about uncertainty arising from the lack of UK government position on future participation in the EU ETS. For businesses participating in the EU ETS, continued participation to the end of Phase III at the end of 2020 would provide certainty, avoid short term market disruption and ensure a smooth transition to future arrangements. Therefore as the ‘no deal’ approach abandons emissions trading, which the UK supported by the devolved administrations has pioneered and promoted over two decades as part of its EU and UN climate leadership, it sends the wrong signal to the traded sector. When carbon markets are expanding internationally (i.e. China) and linking mechanisms are being developed (under Article 6 of the Paris Agreement), this approach reduces our access to the most cost effective decarbonisation routes with carbon leakage protection.

Therefore we urge you to send a clear signal to the EU ETS participants that the four administrations will work collectively to develop longer term arrangements, and secondly that you remain committed to emissions trading and carbon markets.

We have a duty to prepare for the impact of Brexit on Welsh and Scottish consumers and businesses. Therefore we request that you share the UK Government’s Brexit impact assessments before the European Council meets in October. In particular, all UK Government assessments of the ‘no deal’ carbon tax compared to the alternatives, and the differential impacts on sectors or countries within the UK.
Conclusion
The Welsh and Scottish Governments both maintain the view that a negotiated deal for EU ETS is in the best interests of both administrations and the UK. However, in the event of a disorderly Brexit, we need urgent assurances from you that you will immediately begin negotiations with the devolved administrations on the design of replacement UK ETS for the longer term.

We are copying this letter to the Secretaries of State for Wales, Scotland and Northern Ireland, the Cabinet Secretary for Government Business and Constitutional Relations, the Cabinet Secretary for Finance and Local Government, the Secretary of State for Exiting the European Union, and the Minister for the Cabinet Office.

Yours sincerely,

Lesley Griffiths AC/AM  
Ysgrifennydd y Cabinet dros Ynni,  
Cynllunio a Materion Gwledig  
Cabinet Secretary for Energy, Planning and Rural Affairs

Roseanna Cunningham MSP  
Cabinet Secretary for Environment, Climate Change and Land Reform