Dear Gillian,


Thank you for your letter of 1 November 2018 on carbon pricing. As you know, under the provisional agreement for an implementation period after the UK leaves the EU in March 2019, the UK’s participation in the EU ETS will continue until the end of Phase III. However, in a ‘no deal’ scenario, the UK government would initially meet its existing carbon pricing commitments via the tax system, taking effect in 2019 as stated in the October Climate Technical Notice. The Carbon Emissions Tax, announced at Budget 2018, would only be introduced in the unlikely event the UK leaves the EU without a deal in 2019, and would enable the UK to continue to meet its carbon pricing commitments.

The choice to use the tax system in these circumstances does not pre-judge long-term future carbon pricing options, including continuing to participate in the EU ETS, a UK ETS (linked or standalone) and a Carbon Emissions Tax. In line with this, Finance Bill 2018-19 will include legislation to allow expenditure to be incurred to prepare for the possible introduction of a domestic emissions trading scheme. Future participation, or otherwise, in the EU ETS remains a matter for negotiation.
We believe that this is a pragmatic approach given that the UK’s continued participation in the EU ETS would not be possible in a no deal scenario and a domestic ETS is not deliverable by the date of EU exit. A Carbon Emissions Tax allows the Government to maintain its commitment to carbon pricing as a tool to help meet the UK’s legally binding carbon targets.

The architecture for Monitoring, Reporting and Verifying (MRV) greenhouse gas emissions is found in the existing EU ETS legislation. This will be captured in UK law on exit day under the EU (Withdrawal) Act 2018. To ensure it is legally operable, the Greenhouse Gas Emissions Trading Scheme (Amendment) (EU Exit) Regulations 2018 (‘the Regulations’) make the necessary technical amendments to correct deficiencies. The UK Government is committed to matching changes in best practice in this area in the longer term.

The Regulations do not implement a Carbon Emissions Tax. The Carbon Emissions Tax will be legislated for in Finance Bill 2018-19, however, the legislation would only take effect if the UK leaves the EU without an agreement in March 2019. In this event, a statutory instrument would be used to enable the Finance Bill legislation. The Finance Bill has now entered Parliament with the Second Reading held on 12th November – committee stages will commence shortly.

The rate of the Carbon Emissions Tax has been set at £16/tCO₂ for 2019 which is a similar rate to the current EU ETS price. This level demonstrates the UK’s commitment to using carbon pricing to help meet its climate commitments under all scenarios. The Government would review rates for further years at future fiscal events.

The Government remains committed to the Sewel Convention and the principles that underpin our constitution, and UK Government officials have engaged with officials and regulators from each of the devolved administrations whilst developing options in the event of the UK leaving the EU in both a deal and a no deal scenario. Engagement will continue with the devolved administrations and stakeholders throughout the process relating to the development of a long-term carbon pricing system, including on the design and implications of implementing a carbon tax in a no deal scenario. This will include arrangements for allocating the revenues across the UK. Meetings are also being arranged between Scottish and UK ministers to discuss the future of carbon pricing following EU exit.

The Committee also raised concerns over the UK’s licensing regime for geological storage of CO₂ in a no deal scenario. Currently, the licensing regime defines obligations and liabilities with reference to domestic legislation on EU ETS and relies on EU legislation for MRV requirements under the EU ETS. Changes made to the EU ETS regime in the context of the UK’s withdrawal from the EU will therefore have a corresponding effect on associated requirements under the licencing regime for geological storage of CO₂. In a no deal scenario, the Government is planning to restore functionality of the licensing regime for geological storage of CO₂ in areas where the Oil and Gas Authority licenses storage. This will include ensuring alignment with relevant changes being made in relation to post-exit arrangements for the EU ETS. Elsewhere (that is, in Scotland and Northern Ireland) restoring functionality would require devolved administrations to modify their respective licensing regulations.

With regard to the Committee’s concerns around decarbonisation investment and, in particular, support for innovation in energy intensive sectors, we can confirm that in all scenarios we remain committed to maximising the advantages for UK industry from the global shift to clean growth. In the Clean Growth Strategy, we committed to support the decarbonisation of heavy industry during this parliament.
On top of the £100m of innovation funding that is already available for Carbon Capture, Usage and Storage, and Industry projects, we announced at Budget an Industrial Energy Transformation Fund of up to £315m.

We respect that emissions trading is a devolved competence and remain committed to working collectively with the Devolved Administrations on developing a long-term UK wide alternative should the UK leave the EU ETS. We will consult stakeholders on future scenarios as we continue to develop a long-term alternative to the EU ETS. The UK considers that long-term certainty on carbon pricing is crucial for businesses and is committed to a robust carbon price.

Yours ever,

THE RT HON CLAIRE PERRY MP
Minister of State

THE RT HON ROBERT JENRICK MP
Exchequer Secretary to the Treasury