Northern Ireland Assembly

Committee for Agriculture, Environment and Rural Affairs

OFFICIAL REPORT (Hansard)

EU Emissions Trading System and the Greenhouse Gas Emissions Trading Scheme Order 2020: Department of Agriculture, Environment and Rural Affairs

17 September 2020

NORTHERN IRELAND ASSEMBLY

Committee for Agriculture, Environment and Rural Affairs

EU Emissions Trading System and the Greenhouse Gas Emissions Trading Scheme Order 2020: Department of Agriculture, Environment and Rural Affairs

17 September 2020

Members present for all or part of the proceedings:
Mr Declan McAleer (Chairperson)
Mr Philip McGuigan (Deputy Chairperson)
Ms Clare Bailey
Mrs Rosemary Barton
Mr John Blair
Mr Maurice Bradley
Mr Harry Harvey
Mr William Irwin
Mr Patsy McGlone

Witnesses:

Mr Richard Coey	Department of Agriculture, Environment and Rural Affairs
Dr Hugh McGinn	Department of Agriculture, Environment and Rural Affairs
Mr John Mills	Department of Agriculture, Environment and Rural Affairs

The Chairperson (Mr McAleer): I welcome, via StarLeaf, John Mills, Hugh McGinn and Richard Coey from the Department. I ask John and his colleagues to begin the presentation, after which members will ask questions.

Mr John Mills (Department of Agriculture, Environment and Rural Affairs): Thank you, Chair. I hope that members can hear me. We had some difficulty getting in this morning. I am afraid that we are doing this on our mobiles, so apologies for that.

I am the overall director in charge of environmental transition, but I am also specifically responsible for emissions trading. As you said, Chair, with me are Richard Coey, who is our environmental coordinator on transition and the policy lead on emissions trading, and Hugh McGinn from the Northern Ireland Environment Agency (NIEA), who is the operational lead for emissions trading.

By way of background, the EU emissions trading system (ETS), of which we are currently members, is a scheme to encourage reductions in emissions of greenhouse gases (GHG) to tackle climate change. The UK has been a member for around 20 years. The scheme covers only heavy industry, power generators, aviation and similar installations. Those installations are the biggest emitters of carbon dioxide. There are about 10,000 such installations across the EU, with about 1,000 in the UK and 21 in Northern Ireland. We sent you a list of the 21 Northern Ireland participants. Although there are not many participants in the UK, those covered by the scheme are responsible for about one third of the UK's greenhouse gas emissions. The percentages are similar in Northern Ireland.

The EU ETS works by making participants purchase an allowance for each ton of carbon dioxide that they emit. The more that you emit, the more allowances you need to buy. As we have just heard, there are penalties for failure to obtain the requisite amount of allowances. A cap is set on the total amount of allowances and is gradually reduced over time. The aim is to encourage reductions in emissions. Scheme participants, with the exception of electricity generators, receive free allowances, which cover some of their emissions. That is to address carbon leakage, which, as you also discussed, is industry relocating to other parts of the world that do not have costs for carbon emissions. Allowances can be traded, hence the emissions trading scheme. Those that make the biggest reductions may have surplus allowances that can be banked for future years or sold to those who need to purchase more allowances. That is the most efficient way to achieve reductions in emissions. Yesterday's cost of an allowance/ton of carbon was £27.

I will move on to transition. I explained how the EU ETS works. We are leaving the EU ETS, along with other EU institutions, at the end of the year. There is an important exception to that, to which we will come back. As we are leaving the EU ETS, we need to replace it. The UK Government and the devolved Administrations are all committed to tackling climate change. Even if they were not, they are obliged to do something to meet the commitments arising from the UK's ratification of the Paris climate change agreement. That is why the Committee is considering the legislation and framework summary today. We are leaving the EU ETS, and we need to replace it with something else. What has been agreed between the UK Government and the devolved Administrations is a UK emissions trading scheme.

The draft Order in Council before the Committee was made under powers in the Climate Change Act 2008 rather than the European Union (Withdrawal Agreement) Act 2020. Most of the transition legislation that will come before the Committee will be made under the Withdrawal Act, but this Order was made under the Climate Change Act. This enabling legislation requires that it is laid in Parliament and in each of the devolved Administrations' legislatures for debate. The Order was laid in the Assembly on 15 July 2020, and we expect it to be debated in October.

The draft Order establishes that the UK ETS can be operational from 1 January 2021. It establishes the scope of the UK ETS, which includes energy-intensive industries, the electricity generation sector and aviation. It establishes a cap on allowances created under the UK ETS for each year. Again, as you discussed, the initial cap will be 5% below what would have been the case had we stayed in the EU ETS. That means that the standard being established is more stringent on carbon emissions than would have been the case had we stayed in the EU ETS.

The Order in Council also establishes a scheme for monitoring, reporting and verification requirements. The UK ETS Order will establish and define the roles of regulators in monitoring and enforcing the scheme. The aim is to produce the best means of reducing carbon emissions to help the UK to meet its net zero target.

I will move on to Northern Ireland generators. I mention an important exception to the policy that would arise as a result of the requirement in the annexes to the Northern Ireland protocol. It requires that electricity generators will remain in the EU ETS. That is to preserve the functioning of the single electricity market on the island of Ireland. If generators, North and South, were in different emissions trading schemes, there could be differences in prices, which could distort the operation of the single electricity market. To avoid that, Northern Ireland's five electricity generators will remain in the EU ETS, not the UK ETS.

Of the greenhouse gas emissions made by Northern Ireland installations in the EU ETS, about 82% comes from generators, so that is the vast majority. Only a minority of about 18% will come from installations other than generators that will be part of the UK ETS.

There will be further legislation later in the year to provide administrative arrangements for the UK ETS. We expect that to come forward in November. There will also be legislation to enable Northern Ireland generators to remain in the EU ETS; again, that is expected in November. For completeness, there will be further instruments, which will be reserved, to deal with financial matters concerned with the operation of the markets and auctioning; those will be Treasury legislation.

I want to cover a couple of other points. An impact assessment was carried out at UK level, and its assessment of the impact of the UK ETS was that, although there might be some extra administrative costs from setting up the new scheme and the tighter cap, the overall impact on costs would be negligible. Against that, the scheme could encourage greater savings by encouraging investment in emissions-saving technology. It also proposed to establish a fund to assist industry with decarbonisation measures. The details of that are still to be worked through.

On meeting the UK's net zero target, the current level of ambition is unlikely to be enough to be consistent with that target. However, the scheme will be reviewed in light of the advice from the Committee on Climate Change (CCC) in its sixth carbon budget, which will be produced later this year. Further to that advice, there was a commitment to make any decisions on changes quickly and to implement them by 2024.

In developing proposals, the UK Government and the devolved Administrations agreed that the desirable outcome was a UK ETS linked to the EU ETS. That is because the larger the market for trading carbon allowance, the more chance there is of the market being effective and the less chance there is of carbon leakage. Ideally, we would have a world scheme. However, the UK government language on that has become somewhat less committed and now refers to developing a UK scheme that is ready to be linked to the EU scheme. The reason given for that is the uncertainty around negotiations with the EU on future relations.

The UK Government have introduced as a fallback option a carbon emissions tax, as you heard earlier, set by Treasury, which could be used instead of a UK emissions trading scheme. A consultation issued by Treasury on that proposal closes next month. When questioned at the Delegated Legislation Committee recently, the Minister from the Department for Business, Energy and Industrial Strategy (BEIS) was unable to shed any light on the UK Government's thinking on whether they would pursue a UK emissions trade scheme or a carbon tax. I am afraid that we cannot do any better than that.

A carbon tax would be simpler than establishing a UK ETS. If there were a need for short-term, interim measure, for example, that might justify a carbon tax, but, again, as you have heard, a carbon tax would effectively un-devolve that area as emissions trading is a devolved area and taxation is an excepted area. It would effectively take away powers from the devolved Administrations.

I will move on to the framework agreement. In establishing a UK ETS, it is necessary to consider governance arrangements. The introduction of that would be a devolved area, so in theory the various jurisdictions in the UK could make their own arrangements — for example, they could introduce different levels of emissions or caps. In order to keep consistency in a UK ETS, proposals are to be set out in a framework agreement and concordat. Those are being drafted, and, as we do not have the final documents, we have provided a summary paper to the Committee. The majority of the arrangements in the framework are about ensuring consistency and providing cooperation between jurisdictions.

In conclusion, the legislation is about establishing a UK ETS to replace our membership of the EU ETS, which will finish at the end of 2020. The Executive have agreed that approach, and the UK Government and the devolved Administrations' response to the consultation, which was undertaken in 2019, was issued in July. We sent a copy of that to the Committee. Legislation to provide for a UK ETS was laid in the Assembly on 15 July and will be debated later in the autumn. That will apply to Northern Ireland installations, with the exception of electricity generators, which, by virtue of the Northern Ireland protocol, will remain in the EU ETS to ensure the functioning of the single market. Thank you and apologies for that lengthy introduction; it is a complex area.

The Chairperson (Mr McAleer): Thank you very much, John. You said that an impact assessment was carried out across the UK. Has a specific impact assessment been carried out here in the North of Ireland, given that we share a land border with another jurisdiction on the same island that will remain in the EU and in the EU ETS?

Mr Mills: We are drafting a local assessment paper. That was requested by the deputy First Minister when it went to the Executive. We are putting together an assessment rather than an impact assessment; we do not have the detail for an impact assessment. The UK impact assessment did not go down to a Northern Ireland level, but we are looking at a local assessment rather than a full impact assessment. I am sure that we would be happy to share that and send it to the Committee, subject to the Minister's agreement.

The Chairperson (Mr McAleer): That would be really helpful. It also needs to take into consideration the potential outcomes of the negotiations with the EU and Westminster, whether we end up with no deal at all, a basic trade agreement or a comprehensive agreement. Those will all be crucial.

You mentioned that the level that we have set at 5% is actually more stringent than that of the EU. While that it is welcomed by all of us who want to see greenhouse gas emissions reduced, will that alone not increase the likelihood or possibility of carbon leakage; indeed, even entice some businesses in border regions to relocate south of the border, where the EU ETS regime is less stringent?

Mr Mills: You are absolutely right to highlight that issue. It is really a case of striking a balance between climate change ambition — I think that the UK Government would always say that they have been a leader on that — against the cost and danger of carbon leakage. That is the balance that has to be struck. In their response to the consultation, the Government, including the Department of Agriculture and other devolved Administrations, agreed that a 5% reduction was a good and sensible way in which to strike that balance.

There are protections against carbon leakage in that, when installations other than electricity generators are in the EU ETS, they get a certain level of free allowances that covers a lot of their emissions. The level of free allowances that will be given under the UK ETS is equivalent to the free allowances that will be given under the EU ETS. Therefore, the free allowances element, which is very important and will make a big difference to many firms, will be the same. That will be one protection against a differential price. Another protection is that, under the UK scheme, there is a limit on how high the price of a ton of carbon is allowed to go up. I forget the technical term; Richard will be able to tell the Committee. There is a limit to stop carbon prices rising too high. Therefore, mechanisms are built into the scheme to militate against carbon leakage risk.

I want to pick up on something that you said about the negotiations. Obviously, a lot of things are uncertain because of the negotiations. However, the Northern Ireland protocol will come into effect regardless of whether there is no deal. Therefore, we can say that, by the end of 2020, we will leave the EU ETS. As I have said, generators, which account for 80% of our emissions under the EU ETS, will remain in the EU ETS; we can be certain about that. In that respect, there will be no change; they will still be in the EU ETS. They will be in the same position as their Southern colleagues, so the impact on that will be nil.

The Chairperson (Mr McAleer): Finally, before I move on other members, very briefly, will we be furnished with the assessment of the local impact ahead of the debate in the Assembly, which is scheduled for October?

Mr Mills: Yes, we would like to think so. It is still being drafted, but that would be very sensible. Sorry, I am beating about the bush. My answer is yes.

The Chairperson (Mr McAleer): Thank you.

Mr Blair: John, thank you. Like the Chair, I have some concerns about disparity or divergence between North and South if, ultimately, they are in different regulatory framework systems, but I think that that has been asked and answered already. Perhaps we could tease this out: if the negotiations with the EU do not go according to plan — we will not open a book on that just yet — could there be differences in the UK on frameworks if the devolved Administrations decided to do different things?

Could the fact that Northern Ireland does not, regrettably, have specific net-zero or ambitious targets affect, in any way, our contribution to the establishment of the frameworks and the progress that could be made from those?

Did you say in one of your replies that the UK impact assessment did not drill down to Northern Ireland? I am amazed at that because of the land border with the EU on this island. I would like clarification on that should the Committee, or any of us individually, want to take up that issue.

Mr Mills: I will start in reverse. You took me up correctly: the UK assessment did not drill down to Northern Ireland.

On the lack of a net-zero target, you raised a very interesting point about the UK jurisdiction. As I said, if we end up with an emissions trading scheme, that will be a devolved matter and the various jurisdictions could adopt different targets and mechanisms to try to meet those targets. Of course, Wales and Scotland have their own local legislation with their own levels of ambition already, so that is a real risk.

On the fact of Northern Ireland not having a target, to be fair, the Minister wrote to the Committee on Climate Change a while ago to ask what Northern Ireland's fair contribution would be, and it said that it would advise on that once it produces advice on its sixth carbon budget. Carbon budgets are interim steps towards the net-zero target, and the sixth carbon budget is significant because it will be the first one that is made with the new net-zero overall UK target in mind. That is a possibility, hence the framework has a lot in it about cooperation and making sure that jurisdictions have discussions and inform one another before any proposals or decisions to make changes are made.

I think that you asked about negotiations, but I am afraid that I did not pick that up. I do not know whether Richard or Hugh want to add anything on that.

Mr Richard Coey (Department of Agriculture, Environment and Rural Affairs): Hello, Committee. I agree fully with all that John has said. On what we need to do with the impact assessment, it has been recognised that we need to take into account the specific and unique Northern Ireland situation, and, as John said, we are working on that and hope to have something finalised shortly. On the importance of the framework agreement, yes, it is essential that we agree a standard process for how the UK emissions trading scheme will be governed. Within that, there needs to be an established process for how we can resolve any agreements at the lowest level. We are making good progress on that. The Committee will have seen the summary note. We hope to have the final framework concordat towards the end of October or November for the Committee to fully scrutinise it.

That is all that I will add. I fully agree with what John has said so far.

Mr Blair: Thank you, both.

Mr McGuigan: I have a pile of issues flying around in my head. I hope that I can bring them out in a coherent manner.

It is obviously right and proper that there are measures in place to tackle climate change. It is also right and proper that the all-Ireland energy market is protected in these arrangements. I am surprised that John is surprised that the British did not look at the detail of this for the North and at the impact that it will have here, because that seems to be the way that they have dealt with everything Brexit related.

Am I right in saying that the groups in the North that are in the EU ETS make up about 25% to 30% of carbon emissions? John, I think that you then said that, of that, the electricity market makes up 80% of those that are in the EU. When you take that away, you see that it really does not seem that an awful lot of the overall percentage of carbon emissions from the North will be covered by whatever arrangement is put in place. Maybe I took that up wrongly.

This follows on from what John and the Chair said about the potential for carbon leakage. You said that there were free allowances. Will the Assembly have any potential to increase or decrease the level of free allowances to companies here in the North to stop leakage? Is that not possible anywhere, or will it be done at Westminster?

You said that you expected movement on the administrative arrangements in November. Am I right in saying that this will come back in November, that we will get an opportunity to scrutinise it in more detail and to debate it in the Assembly and that it will include the concordat that has been talked about this morning?

Finally, on monitoring and inspection, who is the chief inspector, for example? Will somebody in the North be designated to do that? How many staff will there be? What kind of penalties will exist for people who do not meet their obligations? Sin, sin.

Mr Mills: OK. Thanks for that, Mr McGuigan. That is quite a lot of questions. I will ask Hugh to come in on monitoring and inspection. The acting chief inspector is Gillian Wasson.

You started by going through the percentages. That is correct; you picked it up correctly. Only a minority of total emissions will be caught by a UK scheme. As I say, it is a devolved area. If a UK scheme is implemented and there is a carbon tax, the Assembly would not have a say over that. However, your point about being able to shift the amount of free allowances, presumably to make them greater than elsewhere in the UK, is very interesting. That would very much fall under the framework agreement, because the danger of that is that it could be seen as a race to the bottom. If Northern Ireland were to increase free allowances, then Scotland and everybody similarly did, could you make a good enough case that the land border justified a different approach? We should remember that there is already a slightly different approach for Northern Ireland in that our generators are remaining in the EU ETS with what is, at the moment, its slightly higher cap. In that respect, the others could say that Northern Ireland was already getting an advantage, but in that case, it is accepted that that is needed to preserve the single electricity market.

This Order is subject to affirmative resolution, and we think that it will be debated in the Assembly in October. There is a follow-up administrative-support-type Order that puts in some of the administrative details, and that will probably come forward in November. It will be subject to negative resolution, so it will not get an Assembly debate but will have to go through the Committee. There will then be a third Order, which will be, again, subject to negative resolution, and that will be to ensure that generators stay in the EU ETS. There will be a couple of other pieces of legislation, but they will be on reserved matters and will come from Westminster through the Treasury. They will not come before the Committee or the Assembly.

I will ask Hugh or Richard to say something about monitoring, inspection and penalties.

Dr Hugh McGinn (Department of Agriculture, Environment and Rural Affairs): Do you want me to take this, Richard?

Mr Coey: Yes, Hugh, that would be great, thanks.

Dr McGinn: Good morning. Thanks for inviting us along. I work in the industrial pollution and radiochemical inspectorate, and my boss is the chief inspector, who is currently Gillian Wasson.

On the free allocation and whether we can do anything different from the rest of the UK or the European Union, there are harmonised rules on free allocation that have been adopted and that will be adopted, and there are specific ways to work out who is eligible for free allocation and how much they are eligible for based on historical activity data. That is a well-defined set of rules that we cannot change, so once you have looked at how we gather the information to see what your historical emissions are, what activity you are carrying out and whether that activity is or is not subject to carbon leakage, that will determine the amount of free allocation that you will get per installation and per subinstallation. You also have to understand that electricity generators do not get any free allocation. They are not entitled to it. There are harmonised rules that we cannot break in allocating free allowances, so Northern Ireland will be no different from any of the other European member states or any of the other GB countries when we go out into a UK system.

Again, the penalties are set in legislation, so we cannot increase or decrease them depending on whether we are in or out of the European Union. Again, the system is very, very rigid and is complex. It has been set up over the last 20 years and has been refined over the last 20 years to make it fair throughout the Union. Once we leave, we have to adopt the same set of rules if we want to try to link into the European system going forward.

The Chairperson (Mr McAleer): Thank you very much for that, Hugh.

Ms Bailey: John and the team, thank you for all that so far. I suppose the only outstanding thing that I was going to ask was about who the chief inspector in the Department is, so thanks for letting us know that that is Gillian. Can I just ask what I think is a quick question? What is the role, responsibility and remit of the inspector in the Department? I am new to the Committee and to this structure, so I am just trying to find that out.

Dr McGinn: The chief inspector is written into legislation under the Pollution Prevention and Control (Industrial Emissions) Regulations (Northern Ireland) 2013. We look after large installations such as power stations and heavy industry. We also implement the Control of Major Accident Hazards (COMAH) Regulations. We do radiation, emissions trading and energy savings, so the chief inspector's remit is fairly wide. We have a team of approximately 23 inspectors to regulate most of the heavy industry and bigger, larger installations in Northern Ireland.

Ms Bailey: Thanks for that. Am I right in thinking that, if we get to mid-October — I think that the deadline is 14 October or 15 October — and there is no trade deal between the UK and the EU, we are facing an automatic carbon tax system?

Mr Mills: That is not the case. The UK Government said that they are preparing a UK ETS that could be linked to the EU ETS. From our point of view, that is a desirable outcome because it takes away any question of differences between North and South. Presumably, if negotiations went badly, there would be no chance of negotiating a linked scheme between the UK ETS and EU ETS. In that circumstance, the Government have also put an option on the table for a carbon tax, but they have not said that they will definitely do a carbon tax or definitely do a UK ETS, which would be a stand-alone UK ETS. As I say, the Minister was asked about that in Parliament a week or so ago and was unable to say which of those the Government would do. We cannot shed any more light on that. What we can say for certain is that, even if negotiations break down, we will still get the Northern Ireland protocol, and that will mean that our generators will remain in the EU ETS.

Ms Bailey: OK. Thank you. We know that the electricity generators will stay in the EU ETS. Hospitals, I assume, will continue to be able to opt out. Is there potential for those NI-based businesses that are in the scheme to be able to opt out under any new UK ETS, as is proposed at the minute?

Mr Mills: The proposals for the UK ETS contain provisions for low emitters and ultra-low emitters. I am not familiar enough with the detail on that, beyond saying that it does provide for that. I do not know whether Richard or Hugh can add anything to that.

Dr McGinn: I will take that one. Under the proposals on phase 4 for the European Union, an article 27 and an article 27A opt-out are built into the directive. That is being mirrored in the UK scheme. Basically, that says that, if your installation or factory meets certain criteria, you have the option to opt out of being a full participant in the scheme. Being a full participant in the scheme means that you have to have a registry account with the European Union or with the UK registry going forward, which means that you can buy and sell allowances and trade on the open market. To do that, you have to have a registry account. The different people who are in the scheme have to do certain types of reporting. For small emitters, that is expensive and costly. The opt-out looks at the cost to the smaller emitters to give them an option for — how would you put it? — a lighter touch regulation. They are still regulated, they still have to have a permit and they still have to monitor and report all their emissions. What they do not have to do is trade on the open market and, therefore, have to have all the registry. What they get then, based on their historical emissions, is a target to meet each year. If they fail to meet that target in the opt-out scheme, they will then have to purchase allowances through a system called "civil penalties". If you do not meet your target, you then have to buy additional allowances based on what you have emitted over your target.

Ms Bailey: Thanks a million. I have just one other question. Would there be financial implications for Northern Ireland if we were to move to a carbon tax system as opposed to an ETS?

Dr McGinn: My honest belief is that prices will be set; it will be the same and there will be no difference whether it is a UK scheme or a carbon tax. It will try to mirror the European Union one as much as possible. However, obviously, if you have two different markets — a UK market and a European market — there may be some slight divergence, but that will be based on market conditions. Consider that we have a UK scheme with a limited number of participants — there are approximately 1,000 installations — whereas the European Union scheme is the largest trading scheme in the world.

Mrs Barton: Thank you for your presentation. What consultation has DAERA undertaken with local participants in the EU ETS and relevant stakeholders?

Mr Mills: Richard, do you want to take that one?

Mr Coey: Yes. Initially, in the development of the UK ETS, there was a UK-wide public consultation that ran from May to July 2019. During that consultation, all the Administrations, including Northern Ireland, had specific stakeholder events. On 28 May 2019, we ran a stakeholder event in Hillsborough for EU ETS participants and potential UK ETS participants to attend. Following the closure of the consultation, once the Government response was published at the start of June 2020, the response to that publication was communicated directly to all EU ETS participants.

Since then, as recently as last Friday, an event was hosted by the Department for the Economy and the Department for Business, Energy and Industrial Strategy. That was attended by the main electricity generators. The main concerns that were raised at that event related to what exactly continued participation in the EU ETS for electricity generators would look like, and clarity was sought on whether there would be a carbon tax or a UK ETS. Those questions have been raised again today. We are planning to go out in the near future with as much detail as we can give to participants in both the UK ETS and the EU ETS on what we know to date. A couple of stakeholders asked questions about what it would look like and raised concerns that we are getting very close to the end of the year now, and there is not yet a lot of clarity on the carbon tax/UK ETS. Clarity has been sought on how the EU ETS will operate for those electricity generators. We are working through those issues very closely with BEIS in Westminster. We hope to have some information to share with those stakeholders soon. That is a quick summary of the stakeholder engagement to date.

Mrs Barton: OK. Thank you. The ETS is a climate change tool, as you know. Can you give me an overview of how you intend to build it into climate change policy and planning?

Mr Mills: The question of how the ETS fits into the overall picture is a good point. The Committee on Climate Change, which is the independent body set up under the Climate Change Act for the UK — it covers Northern Ireland as well — regularly models interim steps towards the next zero target; they are called carbon budgets. Its next run will cover about six years. I think that it is due to cover from about 2025 to 2030. It will set out the big picture and what contribution certain elements need to make to be on track towards the next zero target. That will include how much we try to reduce carbon through the emissions trading scheme, and it will also take other sectors into account. To give a crude example: if you do really well on, say, transport, you do not necessarily need to do as well on agriculture. That overall picture, which includes the EU ETS, will come out of the Committee on Climate Change's advice later this year.

Mr McGlone: I thank the Department for its presentation. Perhaps the Department could answer the questions that I had for Suzie, because I have them in front of me.

The briefing document refers to the protocol and issues around state aid, which is dealt with in article 10 and annex 5 of the protocol, and how it relates to agricultural support. It was also flagged up that the ETS may have implications for state aid. Given that state aid has emerged within the withdrawal process as a bigger issue, has the Department any views as to what those ramifications might be at this stage, or what those issues are? Hugh was taking us in that direction earlier when he mentioned that, in the ETS, the emissions cap was to be 5% less than the UK share of the EU ETS. What are the implications of that for auction reserve prices and the matters that have been introduced there? Can the panel expand on that? How might that travel through? Is it a good thing or a bad thing? If one affects the other, would a cap affect the auction prices? Will a similar type of cap be put on auction prices?

Mr Mills: I will take the first question on state aid. Nothing leaps to my mind to say that state aid has been raised as a particular issue with ETS. Obviously, it is, as you correctly say, a big issue in the negotiations. The only answer that I can think of is that the UK ETS is similar in design to the EU ETS, which already has free allowances. I do not think, therefore, that there can be a state aid issue. Given that the free allowances will be the same in the UK ETS and the EU ETS, I cannot think immediately of what would come up as a state-aid issue. There is a proposal in the consultation document for a decarbonisation fund to help industry to decarbonise. I guess that could be seen as state aid, but the EU's ETS also has provision for such a fund. I am not sure that I see a big state-aid issue there, but if either Hugh or Richard has a different view on that, let them say it.

The auction reserve price is a good thing. I think that it is set at about £15. The cost of a ton of carbon varies because it is a trading market; yesterday, it was £27. When firms buy their allowances through auctions, the UK scheme is designed to stop destructively high or low prices, because either would mean that the scheme would not work. The auction reserve price is a mechanism to prevent the price of a ton of carbon getting too low and, therefore, becoming almost valueless. There is also a cap to stop the price going too high. I do not know whether Richard or Hugh wants to add anything to that or to disagree even.

Mr Coey: I will say a couple of things. I agree with John on the free allowances and how those could relate to state aid. As Hugh detailed earlier, there is a set process for prescribing free allowances, which is consistent across the EU, so there should be no state-aid implications.

I want to put the price of the auction reserve price into context. Since 1 January 2019, the lowest carbon value per ton has been about £18, so the auction reserve price is a bit lower than that. Something that I should probably mention at this point is that although the cap has been set at 5% less than what we could expect if we had remained in the EU ETS, it is still set at a higher level than the projected emissions would be for those industries that would be caught by a UK ETS.

In 2021, it is predicted that the emissions from ETS industries will be between 126 and 131 million tons of carbon dioxide equivalent. The 5% cap equates to about 156 million tons, so there is significant headroom. The reason for that is to ease the transition for companies, as well as signalling climate ambition by having a minus 5% cap. Moreover, having a cap that is initially higher than the projected emissions should ensure that there are enough emissions in the system to allow companies to meet their obligations. Another important point is that the proportion of the emissions in the free allocation amount will remain the same for companies that would be entitled to them under an EU ETS, so companies should not expect any difference. I just wanted to make those couple of points of clarification.

Dr McGinn: I concur. The allocation methodology is extremely complex. However, if you want us to give you a written submission on how it is done, we could do that, but, as I said, it could be 10 to 15 pages long.

The Committee Clerk: Do you want that?

Mr McGlone: That would be grand. Thanks for that.

Mr Irwin: I thank the witnesses for their presentation. You said that, whether there is a deal or no deal between Europe and the UK Government, 80% of the recent targets were set by Europe. Is that the same for the whole of the UK or just Northern Ireland? The other issue is on the trading by allowances on the open market. Does that not give mega-rich companies an advantage?

Mr Mills: On the second point of whether the trading gives mega-rich companies an advantage, I will say that people can buy up and bank allowances. Companies are basically playing the market and trying to guess the future costs of carbon in order to decide whether they should buy a number of allowances. Most of them, I think, work through brokers rather than trade themselves, so they rely on expert advice. If Hugh or Richard have anything to add, I would welcome it.

Sorry, I missed the first question.

Mr Irwin: It was about EU emissions targets. Irrespective of whether there is no deal or a deal, emission targets of 80% are set by Europe and we would have to adhere to that. Is that the same for the whole of the UK or just the case for Northern Ireland?

Mr Mills: The EU ETS helps to contribute towards the EU's target, which is to get to an 80% reduction by 2050. The UK has a more stringent target of achieving net zero by 2050. Northern Ireland will naturally make the EU target because we have the higher net zero target in the UK. The UK as a whole will not be bound by the EU target, but the EU may change its target.

Mr Irwin: OK.

The Chairperson (Mr McAleer): Philip, you were looking to get in.

Mr McGuigan: My question has been covered.

The Chairperson (Mr McAleer): OK. I thank you very much for attending and for fielding questions from the members. It was another very detailed presentation.