Northern Ireland Assembly

Committee for Agriculture, Environment and Rural Affairs

OFFICIAL REPORT (Hansard)

Greenhouse Gas Emissions Trading Scheme (Withdrawal Agreement) (EU Exit) Regulations 2020: Department of Agriculture, Environment and Rural Affairs

12 November 2020

NORTHERN IRELAND ASSEMBLY

Committee for Agriculture, Environment and Rural Affairs

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

The Chairperson (Mr McAleer): Via StarLeaf, we have John Mills, Richard Coey and Hugh McGinn. You are very welcome. I invite you to brief the Committee, and then members will ask you some questions. Thank you very much.

Mr John Mills (Department of Agriculture, Environment and Rural Affairs): Thank you, Chair. May I just check that members can hear and see me OK?

The Chairperson (Mr McAleer): Yes.

Mr Mills: Great.

As Committee members will be well aware, as part of leaving the EU at the end of the implementation period, the UK will cease to participate in the EU emissions trading scheme (EU ETS). Installations in GB and non-generators in Northern Ireland will join the UK ETS or be subject to a carbon tax. The legislation to put the UK ETS in place was debated and affirmed by the Assembly on 3 November, and Committee members were prominent in that debate.

Unlike the Order to establish the UK ETS, which was debated and was made under the Climate Change Act 2008, the regulations before the Committee — the Greenhouse Gas Emissions Trading Scheme (Withdrawal Agreement) (EU Exit) Regulations 2020 — are made under the withdrawal Act.

In that sense, they are standard withdrawal Act regulations; that is, they are being made on our behalf in Parliament for reasons of efficiency, like other withdrawal SIs. Department for Business, Energy and Industrial Strategy (BEIS) Ministers have asked for the consent of the Minister of Agriculture, Environment and Rural Affairs to lay this negative resolution statutory instrument in Parliament, as it affects devolved matters. As part of the clearance process, the Minister is seeking the Committee's views before responding.

The regulations implement elements of the withdrawal agreement, including the Northern Ireland protocol. From a Northern Ireland perspective, the main impact of the regulations is to preserve the single electricity market by implementing the protocol's requirement for Northern Ireland electricity generators to remain in the EU ETS. That ensures that there is no distortion of the single electricity market due to differential carbon pricing North and South.

The regulations cover a number of other issues besides the protocol requirement for Northern Ireland electricity generators to remain in the EU ETS. Those concern the winding up of UK installations' participation in the EU ETS. They ensure that UK operators continue to comply with their compliance obligations on emissions for the 2020 year and on reporting verification and so on during 2021, by which time obviously they will have left the EU ETS. They also provide for the continuance of the UK's international reporting obligations under the Kyoto protocol on climate change. That fulfils obligations under article 96 of the withdrawal agreement. Those provisions are not relevant to the Northern Ireland electricity generators, which will remain in the EU ETS, but are relevant to Northern Ireland non-generators, just as they are to GB participants.

In terms of impacts on business, the statutory instrument or the regulations are intended to ensure that the move across on 1 January 2021 has no material effect. In particular, Northern Ireland electricity generators will continue to participate in the EU ETS, just as they do at the moment. Should there be any unforeseen or unintended consequences, the Government will look at addressing them to eliminate any impact. As the regulations do not add or reduce costs for business to a material extent, BEIS has not carried out a full impact assessment.

The main effect, as far as Northern Ireland is concerned, is to keep things the same for electricity generators. The future for non-generators was the subject of debate in the Assembly recently, as a result of the debate establishing the UK ETS. Regardless of the UK Government opting for a carbon tax or the UK ETS, Northern Ireland's five electricity generators will remain in the EU ETS with these regulations, thus maintaining the single electricity market.

The Chairperson (Mr McAleer): Thank you, John. One thing that we raised when this was brought before the Committee previously was whether a local impact assessment was carried out. It had been indicated to us that that would be provided before the debate in the Chamber, but it was not. Has there been any assessment at all of the potential impact on industry and businesses here?

Mr Mills: A local impact assessment was carried out for the UK ETS. I thought that that had reached the Committee before the debate. I would need to check that. That assessment refers to the fact that electricity generators will be staying with the EU ETS, but there is no specific local impact assessment on this regulation, because the intention is to keep things the same, so there is no impact.

The Chairperson (Mr McAleer): Are you 100% certain that, given that the UK ETS has a slightly more stringent cap than the EU ETS, that would not result in carbon leakage on the island?

Mr Mills: Will there be no carbon leakage? I cannot be 100% certain, because we cannot see the future, but I can see no obvious reason why the UK ETS would result in carbon leakage. For a start, this regulation deals with electricity generators, which account for 80% of our emissions and more than 80% of the costs, so there is no change for them. For the industry that will, hopefully, go into the UK ETS, it is designed to make a smooth transition with the maintenance of the same number of free allowances that installations would have received under the EU ETS.

Even though there is a 5% reduction in the total allowances available, I find it hard to see the circumstances in which that would result in carbon leakage. The commitment on that side on the UK ETS — not the regulations that we are talking about today — is that there will be a review of the level of allowances by the Committee on Climate Change in light of the six carbon budget or interim targets. It will look at what the level of ambition will need to be in the UK ETS to match the net zero target. We have to see how that review goes.

The Chairperson (Mr McAleer): Thank you, John.

Ms Bailey: Thanks very much, John, for that. Did you just confirm that the carbon tax, if it is introduced, will not affect Northern Ireland? We are part of the ETS at the minute, but, if Westminster were to move in the future to a carbon tax model, that would not affect Northern Ireland.

Mr Mills: It would not affect the electricity generators, which will remain in the EU ETS as a result of the Northern Ireland protocol. However, if there were a carbon tax, it would affect our 16 non-generators. There would not be a UK ETS for them to join, and it is the plan at the moment that there will be one. So, yes, if that were to happen, they would be caught by the carbon tax, either permanently or for a short period, depending on what the UK Government decided.

Ms Bailey: Thanks for that. Has the Department had any official communications with the Climate Change Committee on the scheme? Obviously, the sixth review is coming up. Do you foresee that there will be any significant difference between what the Climate Change Committee is recommending and the current cap level that we are coming to?

Mr Mills: Generally, I do not know. The Climate Change Committee, as, I am sure, you are well aware, does interim carbon budgets, and it has not done an interim carbon budget when the net zero target has been in place. First, we need to see what the Committee on Climate Change recommends overall as interim steps in light of the net zero target. Secondly, as part of that overall package, the Committee on Climate Change will look at what the ambition needs to be for a UK emissions trading scheme to hit net zero. The general feeling is that the current cap of 5% below EU levels is not ambitious enough to meet net zero targets. The trouble with trying to predict that is that, with government policy, you could always go heavier on another sector and lighter on the EU ETS, but, if you are not as hard on pushing the EU ETS, some other sector — transport or agriculture or whatever — has to make up for that if you are to hit the net zero target.

The Chairperson (Mr McAleer): I thank John, Richard and Hugh for attending this morning's meeting, which has now straddled into this afternoon.

Are members content that we note the SI, using the formula of words as agreed previously?

Members indicated assent.