Select Committee on the European Union

Energy and Environment Sub-Committee

Corrected oral evidence: EU Emissions Trading Scheme

Wednesday 14 March 2018

10.30 am

Watch the meeting

Members present: Lord Teverson (Chairman); Lord Curry of Kirkharle; Viscount Hanworth; Lord Krebs; The Duke of Montrose; Lord Rooker; Lord Selkirk of Douglas; Baroness Sheehan; The Earl of Stair; Viscount Ullswater; Baroness Wilcox.

Evidence Session No. 1               Heard in Public               Questions 1 - 13

Witnesses

I: Silke Goldberg, Partner, Herbert Smith Freehills LLP; Lawrence Slade, Chief Executive, Energy UK; Debbie Stockwell, Managing Director, Sandbag.
Examination of witnesses
Silke Goldberg, Lawrence Slade and Debbie Stockwell.

Q1 **The Chairman:** Welcome to this short inquiry on the European Union Emissions Trading Scheme (EU ETS). We looked at climate change last year, but we did not really get into the detail of the EU ETS. It is an important area in terms of policy and to industry.

Can I remind Members to declare any interests they might have when they ask questions or intervene? Can I remind everybody that this is a public session, and we are being recorded and webcast? We are also taking a transcription. When we send you the transcript, if anything has been wrongly recorded, please come back to us and we can change that. If, at the end of this session, there are areas or things that you think did not come out that were important, you are very welcome to write to our clerk, Alex, to fill in the gaps that you feel we did not get to, although I know that we have had evidence from some of you already.

As I said, this is our first and only evidence session on this short inquiry. Next week, we have a Minister, Claire Perry MP, to do a second session in this series. Perhaps I could just start by asking our witnesses to briefly say who they are, particularly for the benefit of the public and those watching on the webcast.

**Debbie Stockwell:** I am the Managing Director of Sandbag climate campaign, which is an NGO and think tank focusing on European climate policy. The organisation was created 10 years ago by Baroness Bryony Worthington to show what was happening on the EU ETS. Over the last few years, we have broadened out to focus on overall ambition in Europe, the EU ETS, the Effort Sharing Regulation and Industrial Decarbonisation. I have been with the organisation for almost two years. Prior to that, I was a civil servant for 16 years in the Department of Energy and Climate Change and Defra, working on most areas of climate policy over that time.

**Silke Goldberg:** I am a Partner in Herbert Smith Freehills, which is a law firm. I focus on energy law and policy, particularly climate-related issues. I advise clients across the entire value chain on energy and in relation to climate change matters, including the EU ETS. I have also been part of a Yale University expert committee in relation to international carbon pricing.

**Lawrence Slade:** I am Chief Executive of Energy UK, the trade association representing generators and suppliers of electricity and gas. I am also a board member of Eurelectric, which is the Brussels-based pan-European trade association for the electricity industry. I chair its Brexit working group.

**The Chairman:** That is excellent. Perhaps I could start with a very broad question. You have all seen the sorts of questions that we are going to be asking. We need to make sure we do not move too far into the next few questions as we go through this. Perhaps I could ask you for opening...
remarks about the implications of leaving the EU for our participation in the European Union Emissions Trading Scheme.

**Debbie Stockwell:** The implications partly depend on the basis on which the UK is to leave the EU, particularly the position regarding participation in the Single Market and remaining under the jurisdiction of the European Court of Justice. Ultimately, the decision will predominantly be political, and the UK has to recognise that it may not be able to cherry pick elements of the Single Market.

The default position, if a deal is not reached about UK involvement in the ETS, is that the UK would leave the Scheme at the point of leaving the EU. That said, transitional arrangements could be put in place to enable the UK to remain in the Scheme until the end of Phase 3. In our view, it would be much simpler for the UK to remain in the Scheme until that time. In practical terms, the UK would cease to be subject to the ETS Directive on departure from the EU and relevant UK legislation would need to be repealed. The EU would need to adjust the terms of the Emissions Trading Directive: for example, the cap and how it applies to the remaining 27 Member States.

**Silke Goldberg:** I would largely agree with Debbie Stockwell. This is largely a political decision as to what happens, and it is difficult to predict. From a legal perspective, the scenarios are either that the UK leaves with a transition agreement and a follow-on agreement as to what happens post Brexit or that it does not, so that is quite binary. In the scenario where the UK leaves with a transition agreement and a follow-on agreement, there is a possibility that the UK remains in the EU ETS or comes to the conclusion that a linking arrangement might be found. However, in the scenario where the UK does not have a transition period or a follow-on agreement with the EU post Brexit, the UK would simply drop out of the EU ETS. It would cease to apply to the UK on 29 March 2019. That would have very practical consequences for participating installations. It would also have practical consequences for the market, in the sense that it is one thing if you participate in the market for compliance purposes, as individual installations do. However, there are also quite a number of market participants in the EU ETS situated within the UK that participate in the EU ETS for trading purposes, not for their own compliance purposes.

There is a relatively large number of such institutions that participate in the EU ETS for those trading purposes. Banks and hedge funds, for very good reasons, participate and trade in the EU ETS allowances as a commodity. Should the UK drop out, there is a query as to who can participate in the EU ETS post Brexit, and to what extent the participation of such market participants might still be possible once the EU ETS no longer applies in the UK.

**Lawrence Slade:** There is general agreement that leaving part way through a trading phase—that is, before the end of Phase 3 has finished—would be extremely disruptive for UK businesses and businesses within
the remaining 27. It is unclear at this stage, and we can no doubt pick this up later, what the impact of the price of carbon would be on that. What happens in the transition agreement and what comes out of that is absolutely key, because by far and away the best solution would be, if we have to leave, which is not our favoured outcome, to leave at the end of Phase 3, which gives a certain amount of time for organisations on both sides to align themselves to the future.

**The Chairman:** Can I follow up on Silke Goldberg’s comments around the practical effects? As I read it, you were describing a no-deal scenario, which is still not impossible, perhaps because of issues around the Irish border or whatever. Perhaps you could be a little more specific. I want to come on to the traders later on, so forget the financial sector for the moment. I want to talk about the people who hold the allowances. If there is no deal and it all comes to an end on 29 March next year without agreement, what are the practical implications of that?

**Silke Goldberg:** There are a number of practical implications. You have already mentioned Ireland, so let us start there. The practical implication for the Single Irish Electricity Market would be distortion of the electricity price on the island of Ireland. At the moment, SEM works on a pool basis. From May onwards, it will move to bilateral. That effectively means that SEM, the single Irish electricity market, would need to cope with some of its participant electricity generators and market participants being subject to the EU ETS, and others not. That might have an impact on the pricing on the island of Ireland, and a distortive effect on electricity pricing and the functioning of the Single Irish Electricity Market.

The Commission, in its Regulation of 12 February 2018, has already issued arrangements to mark UK allowances for the possibility of there being a no deal and related surrender arrangements. There is also the practical implication that that, in itself, could distort pricing for companies that rely on UK-issued EU ETS allowances.

Typically, companies do not enter EU ETS trading arrangements for compliance on an extremely short-term basis. Companies know that over the next however many years, for Phase 3 of the EU ETS, which we are currently in, they have a particular carbon strategy. That strategy may be curtailed, and companies may need to make very short-term and quick adjustments. That will have practical consequences. Perhaps Lawrence can add to that in further detail.

From a legal perspective, that may have an impact on the existing contracts. It may be quite disruptive, and it will require an awful lot of organisation, in a scenario with quite a lot of price distortion. At the moment, the EU ETS is at a seven-year high. It trades at around €11. Brexit, in a no-deal scenario, will almost certainly have a negative impact on it.

**Lawrence Slade:** There is no doubt that, if we crashed out early, there would be disruption affecting all EU ETS participants. Modelling by ICIS for Eurelectric back in 2016 estimated that, in the event of an exit before
the end of Phase 3, the EU ETS price would initially be expected to fall as UK participants offloaded allowances. That is picking up on Silke’s point around the fact that in many cases companies will buy a number of certificates forward in the market to cover their future operations. That reflects my earlier point that the more notice we have, whatever we end up doing, the better it will be for participants on both sides.

**Debbie Stockwell:** I agree with those points. The key thing, from our point of view, is the impact of allowances being sold to the market and causing a fall in price.

**Q2**

**The Duke of Montrose:** You have seen the questions. They tend to overlap quite a bit. What is the EU’s view on whether it is possible for the UK to continue to participate in the EU ETS after Brexit? I should just declare my interest. I have a rural-based business with a small hydroelectric scheme, and I have seen a bit of the EU Trading Scheme over the years. I have a son who was busy generating carbon credits in China and was able to participate in them, which is a question of people outside the EU using this system. Would the UK’s withdrawal from the EU ETS cause any challenges for the European Union?

**Debbie Stockwell:** A number of MEPs have made clear their preference for the UK to continue in the Scheme. In particular, Peter Liese has spoken out publicly, and there was a Reuters article last year with his quotes on that.

From the point of view of the Council and the EU 27, the focus has been much more on the practicalities. It has been on protecting the integrity of the instrument and the impact it would have if the UK were to leave. Commission officials, in particular, have been very tight-lipped and have not expressed views, at least to us, on the UK’s future in the EU ETS. We are picking up the general sense that there has to be a solution, which is either that the UK is completely in or that it is completely out. A half-way house would not be the preferred way forward.

We have covered some of the challenges for the EU already, but the first is that, if the UK leaves the Scheme, the systems cap would have to be adjusted. There is a real risk that that is an opportunity for ambition to be decreased within Europe. The UK has always been a key proponent of the Scheme and the level of ambition within it. We would argue that the ambition should be greater than it currently is as a result of the reforms last year, but there is a real risk that you start to see a race to the bottom.

There would also be a trickle-down effect on some of the solidarity mechanisms built into the system. For example, the Modernisation Fund is set at 2% of the EU cap, so if the cap is decreased the value of the Fund would decrease as well. Auctioning shares would have to be recalculated, which is a very sensitive issue, so that is going to be challenging in terms of the discussion between the remaining member states.
**Silke Goldberg:** I would agree with that. In addition, the European Union’s view needs to be contextualised with its overall view on the Brexit negotiations. Focusing on the EU’s view on the EU ETS is only part of the answer. The European Union takes the position that the Single Market is an integral creation. It is not possible to cherry pick. Should the UK say, “There is a desire to remain in this policy, or in the EU ETS”, it might be difficult to achieve. This is a personal view, but that is another part of the mood music that I am currently picking up from Brussels.

One would need to consider this carefully, because the European Union’s view seems to be that membership of the Single Market is integral. At the same time, that comes with the Customs Union. It also comes with ECJ jurisdiction in relation to disputes or any issues that arise out of the EU ETS. The European Union’s position seems to be that, provided the UK subscribes to all three of those aspects, the UK can surely remain in the EU ETS. From a practical point of view, I have nothing to add to what Debbie has already said in relation to the integrality and the operation of Phase 3.

**The Chairman:** Is it certain that the EU ETS is a component of the Single Market? That is how Europe sees it, is it? It could be argued that it is something beyond a Single Market policy. It is not a Single Market policy as such, is it?

**Silke Goldberg:** It helps, in that context, to consider what the legal basis might have been for the creation of the EU ETS. The EU ETS was created originally by Directive 2003/87/EC, so that was prior to the Treaty of Lisbon. It was prior to the creation of the Integrated Single Energy Market per se. From a legal perspective, therefore, you could divorce those two, but it is an integral part of how the policy now works. The EU’s climate change and energy policy aims are entirely tied to delivering those through the EU ETS.

From a practical point of view, given the way that the Scheme is administered and tied into the decarbonisation targets, the renewable targets of the European Union and the delivery of the Climate Change Package aims, I would find it hard to divorce that politically. Legally, it may well have had a different basis from, for example, the Climate Change Package, the Third Energy Package and the Clean Energy Package.

**The Chairman:** You are saying that it is totally, comprehensively sewn into the acquis in general.

**Silke Goldberg:** It is, entirely. It is part of the acquis communautaire, and it cannot be divorced from that.

**Lawrence Slade:** We are not aware, equally, of any formal view from the Commission on this matter, but it is worth pointing out that, among the countries that sit around the table within Eurelectric, which represents all the remaining countries, there is full support for the UK staying within the EU ETS.
To put forward a slightly more optimistic view than my colleagues, this is one of those areas where there is a strong argument for the status quo being maintained and that, therefore, being of value to the remaining 27 and to the UK. There is a significant impact. The UK, if I am right, accounts for 10% of EU emissions, so we have a lot of weight in this regard. We have carried a lot of influence forward in terms of the design of Phase 4, for example, and there is a strong benefit to all from the UK remaining within the Scheme.

Q3 Viscount Hanworth: One of the experts has described this ETS as “complex and arcane”, so I feel justified in asking a foolish question. Are the allowances obtained by a multinational enterprise transferrable between the countries in which it operates? This will have implications for the various scenarios.

Silke Goldberg: Yes. If you are a utility with numerous interests in a number of Member States, you can have a group trading strategy for your utility or company. Say that you originally purchased EU ETS credits in relation to one particular installation, and you realise that you need them for another installation more urgently. You can transfer them. From a legal perspective, if I may make a technical point for a moment, they are intangible shoulders in rem. They are entirely fungible. It does not matter whether the company originally acquired an allowance for a power station in Northern Ireland or in southern Greece. That comes with the design of that regime.

However, due to the Commission Regulation of 12 February 2018, it now matters whether an allowance has been issued in the UK. It is the first time there has been a geographical and national denominator as part of that.

Viscount Hanworth: There is now an emerging restriction on transferability.

Silke Goldberg: Yes, because the use of UK-issued EU ETS allowances is now effectively restricted. If a company, to stay with the example, has interests in the UK and in Greece, next compliance year, it cannot say, “It would be far better if I could use the UK allowances for my plant in Greece. Let us transfer the UK allowances to the Greek part of my business”. It can no longer do that, because the UK allowances are effectively restricted for use.

Viscount Hanworth: Otherwise, it would make the circumstances of our leaving the ETS extremely complicated and difficult to control.

Silke Goldberg: Indeed. That was entirely a consequence of the triggering of Article 50, and that Regulation has been brought into being specifically for that purpose. That is right.

Viscount Hanworth: It is foresight.

Q4 Viscount Ullswater: This section deals with the concept of staying in the EU ETS. I am not sure that Mr Slade has not already answered my
question fairly broadly. The question is this: is it desirable for the UK to continue to participate in the EU ETS after Brexit?

Debbie Stockwell: We did a Report in May 2017, while the Phase 4 reform process was going on, and our initial view was that, yes, it made sense for the UK to stay in the EU ETS after Brexit. Now that the reform process has been completed, we have taken another look at our findings, and our views remain the same. We think that the UK should attempt to stay in.

We recognise that, if the UK were to leave, it would lead to a tightening of the market, a decrease in the surplus of allowances and an increase in the carbon price during Phase 4. However, we think that this is outweighed by the impact that the UK has in the Scheme; the fact that the UK, as one of the key proponents of carbon pricing and of the EU ETS, can drive higher levels of ambition in Europe going forward; and the additional complexities that come with trying to establish something new or different in the UK.

There is a real risk that you could end up with a hiatus: that, if you tried to set up some kind of UK Scheme, you would not be able to do that in time off the back of coming out of the EU ETS. When you think about trying to deliver the carbon budgets and what we are trying to achieve in terms of climate change, plus giving certainty to industry and sending a clear signal, it makes things more complicated. That said, we believe that there are a number of workable solutions and a spectrum of alternatives to being in the EU ETS. We are not saying that, if we came out, it would be a complete disaster and there would be no way of managing emissions in the traded sector. However, risks are increased at this point by coming out.

The key thing is that, overall, looking at where the reform process got to last year and at what the EU needs to do to meet the requirements under the Paris Agreement, the reforms did not go far enough. The level of ambition in the traded sector, in the EU and in the UK, is just not high enough at the moment. If the UK stays in the EU ETS, it is absolutely vital that the UK takes additional action, for example through the carbon floor price and additional policy measures, to ensure that we deliver the emission reductions that are needed through the 2020s.

Silke Goldberg: From a legal perspective, the EU ETS has achieved legal certainty for companies. It is a compliance instrument that is now very well established. Companies know how to deal with the requirements. There have been various changes over time, from longer compliance periods to in-year decreases and some technicalities. However, overall, the instrument has delivered legal certainty, which is important, in particular because, on the basis of climate change-related compliance obligations, companies may need to make different investment decisions. They need to buy different types of tools, filters and all sorts of things, in order to achieve a reduction in carbon emissions.
Anything that brings additional legal uncertainty, or a question mark as to how carbon budgets in the UK will be managed in the future, is therefore an additional layer of complexity. It makes it more complicated to achieve compliance with the UK carbon budgets. It is also more difficult to manage carbon allowances overall. I would agree with Debbie Stockwell that there are other ways of managing those. However, there would need to be a certain period of time to phase in a new UK ETS, if that were to be desirable politically, a carbon tax or different forms of managing carbon allowances.

To give you an idea of the length that is required, the EU ETS was first proposed at the end of the 1990s. It then took several years for the EU ETS to be designed at a policy level. The implementation, after the Directive had been adopted in 2003, started in 2005. There was this first trial period of two years, so we are talking about a seven-year period to get an instrument going, at least. I am not saying that it could not be done more quickly, and there might be efficiencies on the basis of experience. However, that ought to be taken into consideration when designing or looking at alternatives.

The Chairman: Of course, it was a perfect system; the problem is just too many allowances. You mentioned legal certainty, which is not an issue I had thought about before. It is very important. A few years ago, we had an issue around fraud. Has that been solved?

Silke Goldberg: Correct. In 2011, there was an issue of carbon fraud: basically, having fake allowances, as we might say today, or allowances that had been stolen from one account and transferred across a number of countries. After that, there has been a minor reform to the system. A number of additional security features were introduced, such as the four-eyes principle. No trader can now trade EU ETS allowances by themselves. He or she will always need to have a colleague to co-approve. There are a number of additional technical features that come with how ETS allowances are displayed in the system.

The Chairman: The loophole has been solved. That is really what I am trying to get to.

Silke Goldberg: That particular concern has been resolved, yes.

Lawrence Slade: Those were excellent answers. Our position is that we should remain, obviously. Currently, the EU ETS is the world’s largest carbon trading scheme. Being part of that, as the European Commission looks to expand it by linking to other carbon markets, would be of benefit to the UK. It would be much easier to do as part of the EU ETS than as a single trading entity with a much smaller market.

Lord Curry of Kirkharle: My question follows on very closely from your final comment, Lawrence. You referred to this earlier in your responses on the impact on the island of Ireland, for example. I need to better understand the financial consequences of leaving the ETS. It seems to me—Lord Krebs knows much more about this than I do—that this
trade-off between the price of carbon and the commercial world that we trade in has always been a bit of a dilemma.

The price of carbon will, we hope, help to change behaviour. It is also of financial consequence to companies that are trading in the big, wide world. If we were to leave without an agreement and we had a hard Brexit approach, our trading competitiveness, not just with the European Union but in the global markets, is a factor that would, I suspect, need to be taken into account. I am interested in your views on that, and whether I am correct in assuming that this could be of trading consequence to Britain as a country and to companies that are based here in Britain.

Lawrence Slade: The earlier you have notice, as a company operating on either side of the EU debate, the better, in terms of providing that legal certainty as to what happens in the future and the position for certificates that you have purchased ahead. The word “hiatus” has already been used. If we were to crash out, the level of uncertainty that caused would undoubtedly provide cost for businesses.

It would call into question a major chunk of UK climate policy, looking at it from a domestic point of view. The carbon price support and the EU ETS provide a fundamental aspect of UK climate policy, which has seen tremendous steps forward in terms of the decarbonisation of the UK power sector. Back in the autumn of last year, the Government made a statement to give some clarity over the future direction of the carbon price if we crashed out, which was a combination of the EU Emissions Trading Scheme and the carbon price. They would be joined together to target, in their words, “a similar total carbon price”.

Our message back to government would be that, if the intention is to leave, as early as possible—and literally: now is good—we need very formal advice on what that carbon price will be, to allow companies to budget. The indication that we get from government is that the carbon price will continue at around the same level.

Debbie Stockwell: If I can extract what I think part of your point was, you were indicating that there is a financial impact on organisations of having to comply with something like the EU ETS. By leaving the Scheme, because of the carbon budgets that we have in place in the UK and the need to reduce emissions to 2030, there is not an alternative where operators get to do nothing. There would need to be a mechanism in place to make sure that carbon was priced into their operations.

You are right that, at the moment, there is not a level playing field in that internationally, you could argue that, because the EU has led the way here, its operators have faced this cost first. Ultimately, under the Paris Agreement, this needs to happen globally, with businesses taking account of the need to decarbonise. Through an emissions trading scheme, you try to find the most cost-effective way to reduce emissions. It allows all the countries and operators that participate, the flexibility to find those lowest-cost emission reductions first.
Yes, you can have carbon price floors and other mechanisms to drive emissions reductions, but you will have to tailor them quite a lot in order to trigger the same behaviour, if they are the only mechanisms you have. There is no doubt that the carbon floor price in the UK is driving the phase-out of coal, but it does not apply to the industrial sectors. It is power generation, so you would have to fundamentally change that to replace the ETS.

You are looking at a System that delivers auctioning revenues into Treasury. Under the EU ETS, Treasury is required to spend about 50% of the revenues on a defined list of options. It feeds back into other climate measures that the UK has in place. To give you an idea, about €389 million goes to the renewable heat incentive.

**The Chairman:** We are going to get into some of this in later questions.

**Debbie Stockwell:** I will leave that, but it was to give you an idea that that money has benefits in other areas.

**Silke Goldberg:** From a legal perspective, I would like to emphasise that the EU ETS is not the only international commitment that the UK has in relation to climate change. It has, individually and as part of the European Union, subscribed to the Paris Agreement, and as such is committed to continued emission or greenhouse gas reduction over time. The EU ETS is the key delivery vehicle for those commitments in the European Union.

Although one might say that, if the UK were to drop out of the EU ETS, it would therefore have a competitive advantage, it would still, under international law, need to comply with its commitment under the Paris Agreement. In addition, there are in any event domestic policies in place that tie businesses to best available techniques from an environmental law perspective and to the carbon budgets. I would subscribe to the view that a “crashing out of the EU ETS” scenario would cause a lot more costs, which would outweigh any competitive advantage that one might consider there could be, if only one did not have to trade those EU ETS allowances.

**Viscount Hanworth:** Is there a prevalence of carbon floor prices throughout the EU, or are we unique in having our arrangements?

**Silke Goldberg:** I believe that the carbon floor price in the UK is unique.

**Lawrence Slade:** Yes. A couple of other countries are investigating it, but I believe we are the only ones with an active tax in that respect.

**Viscount Hanworth:** So we are imposing extra stringency on ourselves.

**Lawrence Slade:** I would put it that we are, in that respect, probably leading the way in terms of a stronger carbon price.

**Debbie Stockwell:** There is quite a lot going on at the moment. A group of Member States is actively looking at the need for an additional carbon
floor price and perhaps regional carbon pricing, recognising, against the Paris Agreement and where the ETS reforms have come out, that there is simply not a strong enough signal in the traded sector to deliver the emission reductions that are needed. Countries such as France, in particular, Germany and the Netherlands are actively looking at this, and I think there will be quite a lot of movement on this in the coming months.

**The Chairman:** The one thing that I have learned in policy and politics is that, if something is wrong with the system, you do not add another system. You put the existing system right, but never mind.

**Q6 The Earl of Stair:** I would like to turn the question towards future influence. The UK has been a fairly key driver in reforms to the ETS to date. To what extent do you think it is going to be possible to retain our influence over the future design of the European ETS as a non-EU participant? Do you have any experience of other non-EU, non-EEA countries that are participants in this regard?

**Silke Goldberg:** By operation of law, if you are not part of the European Union, you cannot influence the directives that are driving or governing the EU ETS. Once you are out, you lose the right to make law, and these directives are European Union law. You have reduced influence. You might have bilateral talks with neighbouring countries, to ask, “Would you mind terribly putting forward this position?” Basically, you no longer have direct influence on how this works.

There is perhaps a scenario in which, if the UK decided to link its own UK ETS to the EU ETS, it would have limited influence as to the technical workings of the EU ETS. For example, I would like to recall that there were Swiss negotiations about linking. There was, for a very brief period, a project to link the very short-lived Australian Emissions Trading Scheme. They were all negotiations between the European Union and those relevant countries to make it work, but those negotiations were focused on technical aspects, by and large, and not policy. Once you are out, you do not get to decide with the other countries what the linear decrease or the target should be.

**Debbie Stockwell:** Undoubtedly, it will be more challenging to influence once we leave the EU, and that goes across the board. You have already alluded to it, but the fact is that the UK was involved in so many European policies that it was often seen as the leader: the go-to country.

I have sat and negotiated a number of directives over the years. The UK Government had a massive impact in terms of the requirements and the level of ambition. Another country will not necessarily step into that space in the same way. We should not underestimate the sophistication of our diplomatic service and what it was able to achieve in terms of getting other countries together and pushing forward ambition.

That said, we can look at the experience of other countries. Norway’s experience shows that it is challenging to work on an instrument that you
do not have the ability to influence directly through the Council. It has a
direct dialogue with the EU institutions, but it has to rely very heavily on
consultancies and other organisations to distil its message within the
Brussels sphere and in capitals. That is more resource-intensive than
doing it directly. The UK is considerably bigger than Norway and has
more influence. At the end of the day, the EU is still going to need things
from us as well. There is going to be an element of striking deals on
various things and sharing information.

There is a broader context here, which is about the UNFCCC and the
nationally determined contribution. There is a decision to be taken as to
whether the UK remains part of Europe’s nationally determined
contribution, or whether it will have its own and work as part of the UN,
as a single country. That decision has not been taken yet either. If we are
part of the EU and part of the nationally determined contribution, there is
a discussion there about how all the countries work together to deliver
that level of ambition. There are going to be opportunities to influence,
but they will not be as direct as they have been in the past.

_Lawrence Slade:_ I have very little to add to that. Anecdotally, it
appears, picking up on the experience of Switzerland in linking its ETS to
the EU, that the closer you are in terms of the Scheme that you are
trying to link to the EU Scheme, the better it is, in terms of both the
structure of that Scheme and the geography of where you are. That
effectively means that you are literally mirroring the EU ETS in order to
link to it.

_The Earl of Stair:_ The final bit that I was going to ask you was whether
the recently agreed reforms will improve the functioning of the EU ETS as
it stands for the foreseeable future or for the interim period before we
leave.

_Lawrence Slade:_ Recently, we have seen a slight move up in the EU
emissions trading price. I think it is at a six or seven-year high. It will
take some time for the reforms to feed through, and for us to understand
just how much of that price is realistic moving forward, but it is certainly
heading the right way. It is a positive start.

As I said earlier, though, there are debates around the modelling of what
would happen if the UK pulled out, in terms of an initial depression in that
price to reflect the UK putting its certificates on the market. That could
depress the price again, but then that might pick up as the reforms kick
in and the market adjusts to the UK leaving. That could see a higher price
towards the end of the 2030s. There is a lot of uncertainty around how
the pricing might play out if the UK leaves.

I would agree with Debbie’s earlier point that we fought for probably two
years to get those reforms through. We and other countries wanted more
stringent reforms, but there is this internal debate within the EU,
depending on your own power generation sector and how you are
creating electricity, as to how you would wish that to play out.
Debbie Stockwell: We spent a lot of time last year trying to influence the negotiation process and the reform process. The end of the process was better than we had been expecting when we wrote the Report, which I think you have all seen, in May or June last year. The reforms are a step in the right direction, but when you look at where Europe has to get to, and where the world has to get to, under the Paris Agreement, they have not gone far enough.

There are a lot of technicalities in the EU ETS. Without getting into huge amounts of detail on the European Commission’s original proposal and the negotiation process, the assumption of where emissions are going in Europe, based on where they are, has a massive impact in terms of there being a surplus of allowances, and in terms of where the carbon price ultimately ends up. At the moment, you have a system that helps to drive some cost-effective action, but it tends to be at the lower end and it favours incumbents. You do not have a carbon price that delivers the level of innovation that is needed for a step change in decarbonisation.

To give you an example of that, there is a project running in Sweden at the moment to pilot low-carbon steel using hydrogen. Those kinds of projects need a significantly higher carbon price if they are going to happen more broadly. If you are going to step beyond just decarbonising power and get into serious industrial decarbonisation, you need a carbon price that is going to drive that.

The Earl of Stair: It is lack of incentivisation, as much as anything else.

Debbie Stockwell: Yes.

Silke Goldberg: It always depends on what your policy aim is, in relation to the EU ETS. If your policy aim is to drive innovation, and your carbon price is to support and develop renewable energies and perhaps lesser-used technologies, you will need a much higher carbon price than is currently the case. For example, the history of carbon capture and storage shows that it was largely a failure within the European Union because the carbon price was not high enough.

If your policy aim is to improve the mechanical functioning of the EU ETS, the phase 4 reforms go some way to achieving that. Beyond that, it is a political judgment, but it would seem that there is some way to go. If your aim is to have a higher carbon price, reforms do not fundamentally address how long the market in allowances is at the moment.

Lord Krebs: My question follows on from this last conversation. There seems to be a disconnect between the ambition that the EU has signed up to through the Paris Agreement, and its willingness to support that ambition by raising the carbon price or reducing the number of permits under the EU ETS. I just wondered whether you can succinctly tell us why there is that gap. Is it about having great ambitions but not wanting to face the harsh reality of what it means?
**Debbie Stockwell:** I could paraphrase Fredrick Federley MEP, whom I spoke with a couple of weeks ago in a public session. The problem, he said, is that in Europe, in the institutions, everyone is looking backwards at the economic crash in 2008-09, not looking forward to where they need to get to. At the moment, the focus is on industrial protection, jobs and the feeling that, if you increase the carbon price, it is going to cause carbon leakage out of Europe and have a disproportionate impact on industry and power in Europe. I do not know whether that holds true for everyone. I am just capturing a sense of what he said.

At the point that the reform process was going on last year, there still was not a sense of how to go further and increase ambition. There was a sense in the Commission and in Member States that thinking about tariffs1 was really for 2019 and the process of the nationally determined contribution, when the EU has to look at whether it ratchets its level of ambition in reporting back to the UNFCCC under the Talanoa Dialogue. There was almost a sense that we will get these reforms done, and then we will think about ambition.

We were putting a lot of pressure on, saying, “You need to do both at the same time”, because the next ETS review is not until the mid-2020s. Elements of it will be reviewed before that, but this is a long time to lock yourselves in, because Phase 4 will take you through to 2030. In our view, it was a missed opportunity and more could have been done, but there just was not the appetite for that ambition, and there was a sense of leaving it until later.

**Baroness Sheehan:** I want to take you back to the Earl of Stair’s first question, which was about the benefits or otherwise of being in the room when future schemes are designed. You spoke about the Norway experience, and I was wondering whether you could just touch on the Switzerland experience.

**Silke Goldberg:** In what sense?

**Baroness Sheehan:** It was trying to have negotiations on the ETS, and I think there was an issue with quotas on free movement of migrants.

**Silke Goldberg:** That was in relation to the EU Energy Sector Agreement.

**Baroness Sheehan:** The conversation came to an end. It is really a conversation, I suppose, about the leverage that the EU can bring to bear if you are not part of the Single Market or the EEA.

**Silke Goldberg:** I think I see where you are coming from. Norway was an easier negotiation, because Norway, as part of the EEA, is subject to the same freedom of movement rules. It is part of the Single Market, so to dock Norway into the EU ETS, if I can use a shipping analogy, was easier than for Switzerland, which is not part of the Single Market and

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1 The witness subsequently notified the committee that she intended to say “ambition” instead of “tariff” in her evidence.
voted against joining the Single Market. It engaged in sectoral negotiations over a really drawn-out period of time in relation to energy. I believe that the negotiations have taken something like seven years and are still ongoing. There is no end in sight.

I would distinguish between Norway, as part of the EEA, half way in the club already, so able to very easily comply with the acquis communautaire and the institutions that govern the EU ETS, and Switzerland, where this was part of the sectoral negotiations for energy and in the wider context of discussions on freedom of movement. It has had a rather tougher time. It is not quite so easy to dock Switzerland into the EU ETS.

Q7 Lord Krebs: My question reflects something that Lawrence Slade said at the beginning, which is about what the transition period will look like if we withdraw from the EU ETS. Mr Slade, you referred to the fact that, as we have seen in some of the background reading, if the UK permits were tagged, that would be one possibility. If the UK dumped its permits on to the market, that would suppress the price of carbon. I wondered whether you could expand for us your thoughts about the practical implications of leaving on 29 March 2019, or, as some people have argued, at the end of Phase 3.

Lawrence Slade: If we are to leave, our favoured position is to leave at the end of Phase 3, because it gives companies active in the market an element of certainty as to what is happening and time to plan. If we leave at the earlier date, time is not on our side in terms of bringing something in to actively replace the scheme.

As was commented on earlier, if you look at the time it took to introduce the EU Scheme, or for the UK to introduce a pilot UK Emissions Trading Scheme, we are very, very short of time. Whether you take the seven years that it took for the EU Scheme to come into being, or the more than two years that it took for the UK pilot Scheme to come into place, the UK has an issue as to how quickly it can bring something in if it exits at the March 2019 date, as opposed to at the end of Phase 3. That would require very quick decisions from the UK Government.

Lord Krebs: I am just looking here at the Report from the House of Commons Business, Energy and Industrial Strategy Committee, published 25 April 2017, so about a year ago, which says, “Government should not seek to leave the EU ETS until it has established clear and well-tested alternative approach”. Has any progress been made in the last 11 months? Have the Government made it any clearer whether they want to leave, and if they want to leave how they will effect a transition and what will replace it?

Debbie Stockwell: I am not aware of anything. I met with officials last week, and the focus was on what came out of the Phase 4 reform process. Like European Commission officials, people are very tight-lipped at the moment, but I do not get the sense that there is a great planning exercise for an alternative.
Lord Krebs: From the industry perspective, Lawrence Slade, are you still as much in the dark now as you were a year ago?

Lawrence Slade: Yes, and I would refer you to a letter that I wrote jointly with my counterpart from Eurelectric on 13 July 2017, where we asked for an agreement in principle for the UK’s continued participation in the EU ETS until at least the end of Phase 3, the end of 2020, by October 2017. We know what happened last year in terms of getting that agreement.

We also asked for clarity about the UK’s participation in Phase 4, 2021 to 2030, to be agreed by October 2018. While the Prime Minister’s speech last week perhaps indicated that energy as a whole is moving up the agenda as far as Brexit is concerned, we have yet to get clarity from officials as to what might happen. The urgency is just increasing, notch by notch, month by month.

Q8 Lord Selkirk of Douglas: Can I mention a possible interest in a plot of land that might have one or two turbines on it in due course? Can I just mention the background to my question? It is about managing allowances issued in the first quarter of 2019. The United Kingdom’s proposal is to continue to participate in the EU Emissions Trading Scheme for some of the transition period and, should it wish to leave, to do so at the end of Phase 3 in 2020, when a more convenient removal might be possible.

My question is this: is the negotiated agreement regarding the UK’s emissions allowances sufficient both to protect the value of the UK’s allowances and to ensure the efficiency of the EU ETS scheme is protected? What would be the effect of the United Kingdom withdrawing from the EU ETS on the carbon trading market?

Silke Goldberg: It would depend on the shape of that transition agreement. If the view of the transition agreement is that the UK remains in the EU ETS, the impact on the value of the UK-issued carbon allowances will be relatively limited. However, coming back to the previous questions, we simply do not know at the moment whether there will be a transition period and, if so, how carbon trading might look in that transition period.

There is a concern, which I have picked up from the industry and I see from a legal certainty perspective, that UK-issued allowances will be devalued and will not be entirely effective any longer, as we progress towards the first quarter of 2019. They have already been marked. The only thing that can assist in maintaining the value of those UK-issued EU ETS allowances at the moment is clear legal certainty in relation to a transition agreement, and continued participation of the UK in the EU ETS post Brexit. It is difficult to answer the question with any more certainty, because you can predict what may happen in relation to a hard Brexit—a crashing out of it—but the shades in between, variances of the current arrangements, are much more difficult to predict and, therefore, to quantify.

The Chairman: This is very crude, but can you give us any idea of the
monetary value of the allowances that are up in the air at the moment?

**Silke Goldberg:** To give you an idea of how many of these EU ETS allowances we are talking about, in Phase 3, there are around 3 billion such allowances. Each one of them represents the equivalent of one tonne of CO2 or different greenhouse gases. The UK is the second-largest user of the EU ETS, and there are around 332 million allowances in issue in Phase 3 in relation to the UK. I believe the overall revenue is something like €340 million or €380 million, in terms of the auctioning of EU ETS allowances for the UK. The UK then is under an obligation, as Debbie Stockwell mentioned earlier, for 50% to go directly towards other climate-related issues.

**The Chairman:** That is fine. We will come on to that.

**Baroness Wilcox:** I think you asked one of the questions I was going to ask.

**The Chairman:** I was not meaning to. It was a different question that I was trying to ask, as to what was at risk to British industry. That is what I was trying to get to, rather than the Treasury income side. I want to follow up on the second half of Lord Selkirk’s question. London is quite an important centre for carbon trading. Is that also at risk here, or is that an international commodity trade that will just continue anyway?

**Silke Goldberg:** As I mentioned in my opening statement, carbon trading is very much part of the financial markets. Just as some companies trade for compliance reasons, banks and hedge funds trade for speculative and financial gain purposes, legitimately so. Banks or other financial institutions situated in London could feasibly become, or remain, market participants in the EU ETS and continue to trade. However, there might be an argument that they are at a disadvantage, because it is not clear how non-EU market participants might continue to participate in the EU ETS.

**The Chairman:** This is what I am trying to get to: there has been a suggestion, as you are probably aware, that certain trades in euros might be able to take place only in the Eurozone once we are out, thereby trying to restrict the City of London. Is there an equivalent risk in terms of EU ETS allowance carbon trading?

**Silke Goldberg:** No, not in relation to the Eurozone, because the EU 27 also comprises Member States that do not subscribe to the euro, so from that perspective the risk is lower. However, because some of the carbon trading instruments are financial forwards and, in terms of the contractual and financial instrument status under MiFID II, are regulated in the same way as other financial services instruments, banks may simply choose to say, “It is safer to do that from an EU standpoint” and do it from within the European Union rather than from without.

That is ultimately a commercial decision that banks and financial institutions will need to take, to check their overall authorisation status
under MiFID II. It will include EU ETS allowances if they do not trade for compliance. How will that affect their overall trading strategy within the European Union?

**Viscount Hanworth:** My designated question is about the UK’s carbon budget accounting, but can I go back to an earlier issue? Lawrence Slade raised the prospect of the UK offloading its certificates in the event of our leaving, which could depress the price. Lord Krebs pursued this further, asking a question about tagging these certificates and so on. If I may say so, Lawrence Slade did not answer that question. I suppose that it may be that the matter is imponderable but, if not, can we hear something about this possibility? In particular, does the MSR, the Market Stability Reserve, have any role to play in mopping up the excess that might arise?

**The Chairman:** Could we do this quickly?

**Lawrence Slade:** Maybe I could follow up with a written answer that takes into account the ICS modelling that I was referring to, in terms of the expectation that there would be a dip in the price and then it would rise over time. Unfortunately, beyond that, unless colleagues on the panel can add to it, it is a bit of an imponderable until it happens.

**Viscount Hanworth:** I think I detected that. The question, then, is what effect leaving the EU would have on the UK’s carbon budget accounting, and what practical steps would need to be completed to accommodate this.

**Debbie Stockwell:** At the moment, the UK carbon budget assumes that emissions from the traded sectors are equal to the UK’s allocation under the ETS cap, so there is not a direct link between what the UK emissions are in those sectors and how the accounting methodology works under the UK budget. If the UK left the ETS, there would need to be a change in how you take account of this in carbon budgets.

Our suggestion would be that you base it on actual UK emissions. We have previously recommended that this change should be made anyway, and to stop accounting with estimated EU allocation, because, as carbon budgets get tighter over time, getting this right is really quite important. Basically, we feel that the system does not quite work at the moment.

**The Chairman:** That could be an advantage of leaving.

**Debbie Stockwell:** It is an advantage, but it needs to happen anyway. If we stayed in, there would still have to be a change to the system.

**Viscount Hanworth:** You are implying that the accounts may not necessarily accurately reflect the extent of the emissions.

**Debbie Stockwell:** No, but the EU ETS as a whole does not do that, because of how the cap is set. Again, it gets quite technical but, in the way that the cap was set, there was a forecast made in 2010 as to where emissions would be through Phase 3, and there was a figure for the end
of this phase in 2020-21. Through the reform process last year, that has been left untouched, even though it is clear from what actual emissions have been in the last few years that we are going to be substantially below that.

**Viscount Hanworth:** How good is our regime of inspection, monitoring and enforcement?

**Debbie Stockwell:** The inspection and monitoring are strong, and there is a whole reporting process embedded in the Directive. It is much more about the political decision as to how you set the cap. It is not that operators are not telling the truth; it is simply that a political decision has been taken not to change from a forecast that was made in 2010 to what the evidence shows us emissions have been in the last three years.

Q10 **Baroness Wilcox:** Under the EU legislation, at least half of auctioning revenues and all the revenues from auctioning allowances to the aviation sector should be used to combat climate change in Europe or elsewhere in the world. The question, to get it on the record, was this: what is the scale of the UK’s EU ETS revenue, which I think you have told the Chairman; who currently benefits from it; and what would the impact be if this revenue was lost?

**Debbie Stockwell:** We have covered quite a few of these points already. As we said, the ETS Directive requires 50% of revenues from auctions to be spent on a defined list of options. Free allocations to UK operators, which are allocations to trade-exposed sectors and those at risk of carbon leakage, were around 60 million allowances, worth about €340 million, in 2017. That was based on a carbon price of about €5.70. The UK spent €389 million on the renewable heat incentive, which gives you an idea of how that money from the Treasury is moving around.

The Treasury itself does not actually ring-fence money. It has always had the principle of not doing that, but the Directive ultimately requires it. Basically, the loss would depend on what system you had instead. How much money was coming into the Treasury would depend on what mechanism was put in place, but the Treasury would probably have more control over how it redistributed that money, unless anything was included in the UK legislation that required it to be used for certain purposes. Treasury could go and spend it on anything; it does not have to be climate policy. That creates more uncertainty in terms of how that money is used.

**The Chairman:** It is a very simple question, but do you happen to know what the Treasury income from the EU ETS was each financial year? Do we know that?

**Debbie Stockwell:** We have that, but my figure is different from Silke’s, so I do not want to confuse you. I have an auction revenue in 2017 of €1,600 million², but these are all published on the European Commission website, so we can make sure that you get that information.
Silke Goldberg: We can certainly follow up.

Debbie Stockwell: We can clarify our response. I did not want to confuse you.

Q11 Baroness Sheehan: In terms of maintaining climate action, if a hard Brexit were to take place, what would be the comparative impact of replacing the EU ETS with a UK Emissions Trading Scheme? We have heard that one impact might be that the hypothecation towards climate change action would be lost. Secondly, would the impact be affected by whether it was linked to another international trading scheme?

Silke Goldberg: The impact, in the first instance, would be the legal uncertainty. If you leave something and go to something else, that disruption and legal uncertainty in itself has an impact. There would also be uncertainty as to how the presumably continuing UK commitments to climate change would be affected, and that is not quantifiable at this stage, because we do not know with what it might be replaced.

Looking at the question of having an isolated UK ETS versus a linked UK ETS, the point has been made by my co-panellists here before that a smaller market will always have fewer efficiencies than a larger market. There are economies of scale; it is easier to trade; it is easier to achieve efficiencies. There are certainly options for linking a hypothetical UK ETS. I mentioned previously the short-lived link to Australia, but there is also the Western Climate Initiative in America, where there is in theory a possibility that the UK might link up with this regime.

It should not be forgotten that under the Kyoto Protocol, CERs and ERUs, the carbon credits that were generated under the Kyoto Protocol, were internationally traded. There are plenty of precedents for international carbon markets. The issue is, depending on which market you link to, what sort of carbon price that might achieve.

Debbie Stockwell: I can give some examples. The Western Climate Initiative has a carbon price quite similar to the EU Scheme, but in California they have a carbon floor price that is lower than the UK’s. They might make it a requirement that, if you link to them, you have to drop your floor price, and that is key for us to drive the phase-out of coal here. There are similarities, but there are also differences. That Scheme also covers more sectors. For example, surface transport fuels are included to some extent. We do not do that in the UK. A link to the Western Climate Initiative would probably need federal government approval, so it is not as straightforward as getting in touch with the Scheme and trying to do something directly. It would need state-level information.

The Korean Scheme has a similar carbon price, but the allocation rules are less ambitious. They are back in the days that we were 10 years ago in terms of grandfathering. There is no auctioning of allowances. They are starting to move to benchmarking in 2020, but that is quite a long way

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2 the witness subsequently notified the Committee that she wished to correct her statement as follows “I have a UK auction revenue figure in 2017 of €600 million...”
back from where we are at the moment. There are possibilities. There are also Schemes in New Zealand, Kazakhstan and Japan. There is the Regional Greenhouse Gas Initiative in the US as well. Ultimately, you will potentially have to give up some fairly significant principles if you want to link to these Schemes. Therefore, an EU Scheme that mirrors, in a lot of ways, what we want to do in terms of climate, even if it does not go far enough in terms of ambition, is probably the closest to what we want to achieve here.

**Baroness Sheehan:** There are options available, if that is the route that the UK decides to take. However, as we have heard before, the planning and the lead times could be quite long. Do you have any indication that any planning has been undertaken at all?

**Debbie Stockwell:** No, not that I am aware of. At official level, there is no indication that any planning has been happening.

**Baroness Sheehan:** My other question was about the barriers to moving to a different Scheme. We have talked a little about legal uncertainty. What about software and other technological barriers?

**Silke Goldberg:** It so happens that the UK invented the software for the EU ETS. I think it is called Greta. Greta comes in several reincarnations.

**The Chairman:** Do we still hold the intellectual property on that?

**Silke Goldberg:** I believe it is a UK development, and I believe that is the case. However, please do not quote me on that. I would need to verify that. It is another example of UK influence on carbon markets. By and large, these trading regimes function on UK software. It should, therefore, be relatively straightforward—I am saying “relatively”; I am not an IT engineer—to dock those Schemes together from a technological perspective, but I would not underestimate technical barriers, as well as legal and compliance barriers, to docking. Debbie Stockwell has already pointed out the issues pertaining to different floor prices.

**Q12 The Chairman:** Can I ask about the aviation sector? We fly into Europe; we fly out. At the moment, that is part of the Scheme. What happens in that sector if we are outside it? How does that affect the aviation industry? It must affect it fundamentally.

**Debbie Stockwell:** Can we send you something on that afterwards?

**The Chairman:** Yes.

**Lawrence Slade:** I am afraid that that is outside of my sphere.

**Silke Goldberg:** You may recall, when the aviation sector was brought into the EU ETS, there was a great furore in the international aviation market.

**The Chairman:** That all stopped, did it not? We have gone through, in this Committee, some of the offset agreements on the international one, but within the EU it is part of it.
Silke Goldberg: Yes, it is.

The Chairman: Once we are outside, does that give us an advantage?

Silke Goldberg: Do you mean an advantage in that the pricing for flight tickets might be lower?

The Chairman: Yes. I suppose it flows both ways.

Silke Goldberg: On the assumption that you want to fly back from Europe as well, it does not, on average.

Lord Krebs: My question is really very simple. Could you say a bit about the merits and impacts of replacing the EU ETS with a carbon tax?

Debbie Stockwell: I have covered some of this already, but I will run through the main points. We already have a carbon tax: the Carbon Price Support. As I have said, this has been quite effective, particularly in driving coal phase-out in the UK. As I said, at the moment, it only applies to power generation. It does not apply to industrial emissions, and UK industry is compensated for the indirect costs of the carbon tax through relief under the Climate Change Levy. If you had a tax instead of the ETS, you would have to expand it to cover industry. Without the EU ETS, trade-exposed sectors and those at risk of carbon leakage would not get free allocations of allowances. This would be a very strong change to the regulatory framework. That is not to say that it is not possible, but there are challenges and risks there.

There is a greater political risk to a tax. At the moment, the current political commitment is only to keep the carbon floor price until the end of coal phase-out. We would argue that it needs to go beyond that and be strengthened to deliver further changes. There is quite a lot of risk in only following that approach. You would want to think about how you can enshrine something that is stronger, is longer term and gives a clear signal to business that links directly to the carbon budget, so that the certainty is there in terms of how they deliver longer-term emission reductions.

Silke Goldberg: I would concur with that, and recall that the reason we have the EU ETS is because the European Union did not have quite enough competence in the area of taxation. It was originally conceived as a carbon tax, and only because the EU does not have its own competence for taxation did the EU ETS come to see the light of day. I would concur that taxation is inherently more susceptible to legal and political interpretation and changes. The EU ETS or a UK ETS might be more apt in providing longer trading periods and compliance periods.

The Chairman: There was a carbon floor tax escalator, was there not? That was abandoned because of political reasons. Of course, the House of Lords does not get to intervene on taxation issues, so they did not have our sanity and our cool view of it.

Can I come back to Lawrence Slade on one issue around influence, which
Baroness Sheehan and others were pushing on? You mentioned in your introduction, Lawrence, that you were also a member of a European organisation. Is there much back-door influence in the future for UK corporates, businesses or trade associations that are members of European trade associations to get our message through, or is it just such a weak link that it does not really work?

Lawrence Slade: It is not a weak link. Leaving the EU will mean that UK institutions, businesses, etcetera, will have to reassess how they approach dealing with Brussels, but the experience of other countries sitting around the tables that I do is that the influence is there. It is about how you interpret the difference between being able to influence before a vote is taken and being able to vote around a table such as this. In many respects, a lot of the discussions have been undertaken by the time the vote is held.

Influence is still there. You can still work with it, but it will not be as final as being able to have a vote, under some circumstances, as we have today. The experience, albeit in different respects, of Norway, Switzerland and others is that you can still be in the room and influence those conversations in that way.

The Chairman: Thanks very much indeed. It has been a most useful session. I suppose the biggest message that comes out to me is that, if we do not get the right deal, we can just say, “I am afraid the EU ETS software gets it”. That is our lever of power, as always: data and information. I bring this session to a close, and I thank our witnesses very much for their participation. Thank you.