

**UK Trade & Business Commission**

**CBAM and Net Zero**

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**Geoff Mackey**

... at what promises to be a very interesting and relevant two sessions today. Our first session today is going to look at CBAM and our second session is on the emissions trading scheme. We're joined by three witnesses today, I'm going to start by asking them to do a short introduction from each of them, if they would be so good, and can I remind both Commissioners and witnesses to make their responses to each other pithy and short please, thank you very much. That would be appreciated. Could we start with introductions? Chimdi. Chimdi as we like to say, you're on mute.

**Chimdi Obienu**

Hello, good morning, everybody, thanks for having me today. I'm Chimdi Obienu, I am a Research Consultant at Ecoact which is a climate consultancy. Here I focus on carbon markets, so emissions trading schemes, carbon taxes, border carbon adjustments, and I help companies to assess and quantify their financial risks associated with these mechanisms. I have an academic background in energy and environmental policy and prior to Ecoact I was working at a policy consultancy in Washington DC.

**Geoff Mackey**

Thank you. Laura.

**Laura Kelly**

Morning everyone, very nice to be here, thank you for the invitation. I lead the shipping sustainable market research group at the International Institute for Environment and Development. We focus predominantly on countries in the global south looking at the drivers and levers of sustainable markets, we have a big climate programme working particularly with the least developed countries around both their adaptation towards climate change but also in terms of how they influence debates around mitigation, so very pleased to be here today.

**Geoff Mackey**

Thank you very much. And Luca please.

**Luca Taschini**

Hi everyone, good morning. Luca Taschini, Professor and Chair of Climate Change Finance at the University of Edinburgh Business School and predominantly my research is about design and implementation of carbon pricing instruments. Thank you.

**Geoff Mackey**

Great, thank you very much, welcome to all three. Could we start with an overview question please, in relatively simple terms, what is the EU CBAM and what is the outlook for implementation? Could we start with Laura please?

**Laura Kelly**

So probably my colleagues I was going to try to email in advance would, they're probably working more on this than I am. We're looking more at the implications of it, so my responses are going to probably come in more along the latter questions, so given we don't have a huge amount of time ...

**Geoff Mackey**

No that's fabulous, thank you very much.

**Laura Kelly**

... would like to pick this one up.

**Geoff Mackey**

No, sure. Luca?

**Luca Taschini**

Yeah, sure so I'll try to be brief here. I think that most of these broader carbon adjustments are used to tackle different types of targets and it seems that the ultimate aim here for the European Carbon Boarder Adjustment is to try to maintain or control carbon leakage, so basically what the EU CBAM is trying to ensure is that foreign producers pay a price per tonne of CO2 emissions that is equivalent to what a similar position EU producer would pay. Very quickly on the outlook, there are two phases, these are monitoring phase that starts from 2013, in fact has started and will end in 2025. During this period importers are required to measure and report the embedded carbon emission in their imported products. However, no charges are applied in this initial phase. After that from 2026 there will be a charging phase, so starting from that date importers would be obligated to pay for the carbon emission associated with the imported products. Outlook, I think that the successful execution of the monitoring phase very much depends on the development of measurement [inaudible 0:04:11.3] mechanism alongside some resolution of technical and administrative hurdles. I don't think this is insurmountable. Regarding the next phase well that very much depends on many different factors that I think we're going to discuss later during all the other questions.

**Geoff Mackey**

Thanks very much, that's a good starting point. Chimdi anything to add to both the subject itself and the outlook for implementation please?

**Chimdi Obieniu**

Yeah, I might just add just about the sectors that are covered, so it's going to import for the EU or iron and steel, aluminium, cement, fertilizers, electricity and hydrogen, so those are the imports that are covered. And then just a bit more colour on the implementation so far. So, it's just started really, companies have had reporting obligations as Luca said from the start of this month and the EU has published some support material, data collection templates to start helping companies with the process. Until July of next year, the EU will allow companies to use simplified methodologies to calculate embedded emissions but after July of next year the more complex full implementation of the reporting methodologies will take place and companies will be expected to be up to speed with all of the EU's expectations.

**Geoff Mackey**

Sorry Chimdi just to pick that one up, when you say companies do you mean all businesses or is there size relevance or how does that work?

**Chimdi Obieniu**

So, when I say companies, I mean any companies that have the reporting obligations under CBAM and so that's not necessarily about the size of the business itself, it's about the goods that they're importing and the carbon intensity of those goods, so that's what I mean when I say companies will have these obligations.

**Chimdi Obieniu**

Brilliant, that's really helpful, thank you very much. Moving on from there, Tamara it's good to see you, I hope your morning is going well. Can I give the next question to you please?

**Tamara Cincik**

Thank you, Geoff. Hi everyone, so my first question is ... can you all hear me by the way, I just want to check because I'm going in and out of airpods here, so thank you, OK. How is the UK Government responding to CBAM and what steps do they need to take to confirm their position? I'd like to start with Laura please.

**Laura Kelly**

So, our take on that again is from the countries that we're working with, these developed countries and low- and middle-income countries and for many of the smaller countries such as Mozambique which actually are quite strong aluminium exporters, there is the potential that their industry could be affected. At the moment there isn't really much discussion about how to support countries, helping countries who are in a position of having some of their exports impacted and at the same time they're trying to invest in climate mitigation and also implementing more green energy, so that's just a [inaudible 0:07:18.4] that the IIED are working on.

**Tamara Cincik**

Thank you. Chindi?

**Chimdi Obieniu**

So, in terms of the UK Government response, I think the UK published a consultation on potential mechanisms to combat carbon leakage, including CBAM and that was earlier this year. And so that consultation is ongoing, it's a necessary step to get feedback from industry and other stakeholders on what a UK mechanism could look like. In terms of confirming the Government's position, I think that an important step to take regarding CBAM is actually to sort out the UK emissions trading scheme first. The EU CBAM is there to enable the proper functioning of the EU ETS, so if the EU CBAM can ensure that EU firms won't be at a competitive disadvantage due to the costs paid under the EU ETS, the EU can stop providing regulated companies with a huge proportion of their emissions trading allowances for free, which is currently what happens for most firms outside the power sector. And giving free allowances out fundamentally undermines the point of the mechanism which is to price emissions. And so, the UK I think in order to confirm its position relating to a CBAM really needs to have a timeline for the phase out of allocations under the UK ETS because without that you can't really provide much certainty about how a domestic CBAM would work.

**Tamara Cincik**

Thank you, everyone's being very succinct, I think we're going to be well above time Geoff, sorry Chair. Luca?

**Luca Taschini**

So, I mentioned these two phases, the monitoring phase, and the compliance phase, so I believe that the immediate implication over the next couple of years for the UK, so during this monitoring phase, may be relatively minor. The UK has already a monitoring and reporting verification mechanism in place for the carbon emissions, so complying with the CBAM requires really, during this period, it just involves some administrative adjustments and additional paperwork. However, the critical consideration probably will come into play end of second phase and the UK's response to the CBAM and the action that should be taken or will be taken I think depends on predominantly trajectory of carbon pricing in the UK, trajectory of those carbon pricing in Europe and globally, these would be a significant determinant. And additionally, any sort of discussion about potential linkage between the UK and ETS will be definitely important.

**Tamara Cincik**

So, I'm no expert on this area but are you saying that the issues could potentially get wider if there's a divergence between the two?

**Luca Taschini**

Yes, if you take already, suppose that we are at the moment, suppose that starting from tomorrow we are supposed to also have an adjustment, as in a cost, the price differential that we currently observe between the European system and the UK system will determine the adjustment that the European members will apply to whatever is imported in the UK and that's a substantial price differential, so it's a really big cost on export.

**Tamara Cincik**

That's very helpful, thank you. Back to you Chair.

**Geoff Mackey**

Thank you very much Tamara, that's great. Charles please?

**Charles Rose**

Good morning. This question follows on from the points that Luca was just making about linkage and it's actually to ask whether it would be feasible for the UK to introduce the CBAM without linking EU and UK ETS systems and would UK/EU ETS linkage require a separate Treaty? And a further add on to this which is that I also wonder about the accuracy of these reporting systems and whether in fact they capture what it is indeed they're set out to literally capture. Luca, can I start with you as you were in full flow?

**Luca Taschini**

Sure, I think that from a technical standpoint the UK can indeed introduce its own carbon border adjustment mechanism, independently without actually linking with the EU ETS. However, visibility, the question is about visibility and effectiveness of such a UK CBAM, is closely tied to the way border adjustments are calculated or will be calculated in the future. So that very much depends on the price differential. So just to give you an example, suppose that again we are in 2026 and we are in a situation when the UK ETS has a lower primary price than the European Emission Trading System, basically today that's the situation. Any UK CBAM would likely be constrained by the price levels that we have within the UK ETS, this is to remain competitive and complying with the WTO. So, you cannot actually charge something that is higher than the price that you face in the UK. So, any form of adjustment I believe will require some minimum level of alignment between the two systems, so between the UK ETS and European ETS in order to have an operating UK CBAM. And regarding the Treaty, I don't know, and regarding your further questions, capturing the real level of emissions, as I mentioned earlier, we have already a very well-functioning monitoring, reporting and verification system in place, so the European one and the ETS one have been running for the past 15 years basically.

**Charles Rose**

But a further point is just how incentivised are people to make this accurate or is there a ...

**Luca Taschini**

Oh sorry, so it will be, there is a default level of emission intensity that will be ... suppose you're not reporting anything but you are importing stuff into Europe, or actually exporting stuff into Europe, there will be a default level of emission intensity that will be applied and that default is basically a penalisation, it will be the highest level of emission intensity with a supercharge of 40%.

**Charles Rose**

OK thanks, that's very helpful. Chimdi, can I turn this one to you?

**Chimdi Obienu**

Yes, I would mainly just echo a lot of what Luca said about that in terms of could the UK introduce its own system without linking with the EU ETS, yes. Would it be practical for the businesses that would be subjected to these regulations, I'd say it would be certainly better to have fewer systems in place. Also, kind of what Luca was talking about, the premise of linking the UK and EU systems is based on them both looking somewhat similar so that they're comparable and could be linked, and already after two years of the systems being apart, we're seeing some kind of divergence. So this year the EU prices ended up far higher than the UK price, we're seeing different approaches to the kind of sectors that will be covered under both systems, there's different approaches to the free allocation of emissions allowances, there's also different approaches to free allocation of remissions allowances and so before we even talk about linkage I think we need to be sure over the next few years that that's even a practical option, because the systems don't look too differently. And then of course as Luca said, the incentive to accurately report emissions is because the EU is ensuring that there's a very conservative estimate of the emission factors or the emissions intensity of the production of certain goods, such that companies who do have more efficient processes are incentivised to make sure they're collecting that data properly so they're not penalised for not collecting the data with these conservative assumptions of what their emissions could be.

**Charles Rose**

OK, smashing, thanks very much for that. And Laura, can you take this on now?

**Laura Kelly**

Yes, just to add on that, I think it's the divergence issue from the perspective of developing countries, obviously the larger more vocal and bigger trading partners, countries like China, have already been quite vocal about this in the WTO, but for smaller countries, compliance, they already face very high costs of trade being able to comply with a range of different regulations makes it much more difficult. Actually probably the new markets are much bigger so if they are, they're not huge global exporters but they would be looking to export their goods into a bigger market, so they would be drawn to the EU even if it might be slightly higher standard, higher price, but actually it would be much easier for them in terms of their volumes of trade.

**Charles Rose**

And that's very much a driver towards harmonisation.

**Laura Kelly**

Yes.

**Charles Rose**

And are the voices there to drive this harmonisation or do we just continue with this diverging outlook?

**Laura Kelly**

I think from certainly the least developed countries' perspective they are; they're sort of waking up to this, they've been more focused I think on the EU, certainly you know not really discussed with some of our interpreters the UK system because the focus has been on the EU so far. My guess is that UK partners in China, India, you know they are probably raising these points in bilateral trade discussions.

**Charles Rose**

Thank you very much, and I think that's back to you Chair.

**Geoff Mackey**

Charles, thank you very much. And back to business, Tamara.

**Tamara Cincik**

Thank you Chair. Would businesses benefit from the UK aligning with the EU CBAM? In the absence of alignment what adjustments would business need to make? I'll go to Luca first please.

**Luca Taschini**

So, I think in general businesses could benefit from the introduction of a UK CBAM but that very much depends on where they are located on the supply chain and the trade relation between Europe and UK. So, allow me to do a very over-simplification of the UK economy and let's start considering businesses that predominantly operate in the UK domestic market. So upstream businesses that engage with importing carbon intensive goods, they could actually potentially face adverse consequences. Whereas mid downstream businesses involved in importing less carbon intensive products may actually find themselves in a more favourable position. Possibly even benefiting from any sort of alignment of the EU and UK CBAM. Now, for businesses that actually operate internationally, well the advantage that they gain very much depends on the degree of the overall price alignment. So, we're going back to what we said earlier, simply designing a UK CBAM from a pure design perspective aligned to the European one doesn't prevent the possibility of actually being charged with a relatively high level of adjustment. So, it appears in my opinion that some level of alignment or dependence between the two systems, the two ETS systems, could facilitate corresponding alignment between the CBAM adjustment costs.

**Tamara Cincik**

Thank you, sorry my phone is pinging, and I realised that it's aligned to my computer which is why I was turning myself to mute. Laura please.

**Laura Kelly**

Yes, this is the other side of the divergence coin and I think the example that Luca set out was a very good one around kinds of companies and kinds of trade they're involved in, but even for, given this would be a piece of legislation going down the supply chain, some of the products that I mentioned before, aluminium that is going into other things that are being processed in China or things that are being made in Europe and then coming into the EU, there is an implication of this going down value chains, so even though some of the developing country exporters may be small exports of business in

very specific sectors, iron, steel, aluminium, some cement from North Africa, in those sectors there could be quite significant impacts. So, alignment would help those producer countries and as we're hearing from Luca make it easier for UK businesses that have got operations coming from Europe.

**Tamara Cincik**

Thank you. Chimdi?

**Chimdi Obienu**

Yes, I think what both Luca and Laura have to say is important and Luca focused on, the price differential and the actual costs of CBAM. I think another element that Laura is focusing on is just the reporting obligations of these companies and so just looking at what the EU has at the moment at a high level, importers into the EU will need to report information on their suppliers' production facilities, the size of those facilities, some of the activities that happen in the facilities, the level of energy consumption, emission factors, waste gasses and other product specific information and then for some complex goods, importers will also need to somehow collect this information from the suppliers of their suppliers as well. And eventually you know companies will face penalties for doing this process incorrectly. And so I guess my thinking here is that if the UK does decide to implement its own system, and if any of the data collection formats or if any of the emissions calculation methods are different to the EU, they diverge in any way, this is going to impose a significant burden on any firms that are importing from or exporting to the EU. And so, from that perspective alignment would actually be quite a positive thing, just so that there isn't this massively divergent international system of different CBAM mechanisms. There's a huge amount that companies are having to do.

**Tamara Cincik**

Just picking up on that, I'm assuming that the key point is that the major market is the EU for production here and also, I'm assuming the work that Laura has written about and the countries that she's working in that the wish is to build into the EU market because of the numbers. Am I getting this right, because I think even though I'm no expert on your area I'm seeing similarities with evidence we've taken from other industries about the requests for alignment. Have I got this right? Yeah, OK great. Right back to you Chair, thank you.

**Geoff Mackey**

Thanks very much Tamara. Chimdi, I do apologise for slipping in another question. You used the phrase 'significant impact' could I ask you to qualify that or possibly even attempt to quantify it in any way.

**Chimdi Obienu**

When I say significant impact in terms of the regulatory burden on firms, is that what you're referring to?

**Geoff Mackey**

Yes, it is.

**Chimdi Obienu**

I think it would be dangerous for me to try to quantify it at the moment but what I can say is working with companies again only at this early stage of CBAM where it's just reporting obligations, a lot of firms are not going to have the in-house capacity to either calculate the emissions themselves or to engage with their suppliers upstream in their supply chain in order to get those suppliers to report emissions accurately along the lines of the EU methodologies. So there's going to be a lot of using outside consultants, hiring additional people to understand your emissions in your supply chain and so I don't know exactly what the costs would be, but having seen these methodologies it is complex, there will need to be lawyers involved, there will need to be engineers involved to look at the facilities, and a lot of companies, whether they're in the EU or in EU trade markets, do not have the capacity to collect the data in the way that they'll need to right now. And so, when I say significant, I mean there may be changes to your operations, changes to your hiring schemes, things like that.

**Geoff Mackey**

Thank you very much. Moving onto the next question if I may, Philippa?

**Philippa Whitford MP**

Thanks very much Chair. Obviously, we've heard throughout the Brexit debates and since Brexit that often the UK Government expressed that they feel they could go further, set higher standards and an ideological objection to alignment. So, you've already all touched on it a bit but is it really practical for the UK to continue without any attempt to align the ETS and CBAM mechanisms? If I can have Chimdi, Luca and then Laura.

**Chimdi Obienu**

Sure, I think generously it could be a bad position to take. So for example UK authorities have been more positive about the potential inclusion of engineered carbon removals in the UK ETS than EU officials have been, and so one could take this point and say if one believes that a reluctant EU could maybe prevent the UK from say adding more sectors to the UK ETS then maybe to some extent the EU could hold back the UK, right? However, there's really no evidence that the UK would be far more ambitious than the EU would want to be. We've spoken before, the EU price is far higher than the UK one at the moment, the EU is on track to stop giving out free emissions allowances before the UK, and the EU is also on track to add additional sectors to the ETS before the UK is. So, I would just want to make sure that anyone making this point about the UK being able to go further, I'd just want to make sure they were making that point in good faith. One other point I would make is the EU CBAM at the moment might be quite hard on businesses, I keep saying that the methodologies are complex and so possibly the main step that I'd want the UK to be taking right now is just kind of learning from what's happening in the EU and if the UK does choose to go it alone, potentially thinking about how a system could be designed in a way that's maybe better than what the EU has put out at the moment.

**Philippa Whitford MP**

Before we move on, can I also add in, are there other things that the UK needs to start looking at? I mean it's very striking that the UK doesn't include emissions from transport, it doesn't include its external carbon, whereas obviously other countries do look at what their total carbon reduction is. So, when we hear the UK has reduced carbon emissions by 42%, that doesn't include any of the big ships

coming from China or whatever else. So, are there not things where it also has to just put its house in order, so that when it's doing more of these things it's more comprehensive to start with?

**Chimdi Obieniu**

Yeah, I would say so. I think this kind of relates to what I was saying earlier about before we were even talking about CBAM we need to ensure that the UK ETS is fit for purpose. And then there's one aspect that was released in the UK ETS report this year, we will be bringing shipping into the UK ETS in future, although it's only ships up to a certain size and so quite a lot of shipping emissions are still going to be excluded there. But yeah, I would agree with the statement broadly that yes, I think the focus does need to be about making sure that the UK ETS is a key aspect of the Net Zero transition. At the moment it's not really been serving that purpose.

**Philippa Whitford MP**

OK thank you. Luca?

**Luca Taschini**

I think that it is possible for the UK not to link with the EU ETS and the CBAM, but I think we need to identify the potential consequences and I think some of them are really quite self-evident.

**Philippa Whitford MP**

It's whether it's practical, you know it might be ideologically but is it something Government should seriously think of doing.

**Luca Taschini**

Exactly, let me talk about the practical, I mean whether it's practical not to or without actually sort of linking, let's go back to that example. So, there will be a price differential and the way currently the CBAM directive consider a potential calculation of the adjustment is based on what is defined to be an equivalent carbon price and that's crystal clear in Article 3 I think, what is the price, what is an explicit price. It is basically the price that we currently see in UK, and it is currently the price we see in Europe. There will be adjustments for sure, changes, but that's pretty much it. So, I think that suppose that we don't want to do any sort of linking, so if establishing a direct link is deemed unattainable, what we could do probably is a proactive measure to counteract the potential adverse impact of the scenario I was just describing. So, what we could, for example UK can do and Chimdi alluded to that, so some sort of reform or modification of the UK, one potential avenue is actually a proactive management of a supply of allowances, so where you control your own allowances so that you try to control this price differential. We have already actually within the current existing UK ETS provisions that do that, the auction reserve price is a possible way to do that. But I think it's important to recognise again going back to your point about practicality, it's important to recognise that although reforming the UK ETS might be less intricate and politically challenging path, it remains a very complex undertaking. So, I think it's really important to understand that. You might think it's easier to do that, but it's still very complicated and complex to do that. For example, we eventually decide not to have EU market adjustment system in UK that would be replicating what currently is existing in Europe. Also, if we take that avenue the two systems will substantially diverge and that divergence potentially might again enlarge that price differential, so and obviously go and work against any sort of linking. So, I'm not entirely sure this is a practical avenue.

**Philippa Whitford MP**

And Laura?

**Laura Kelly**

Thank you. Yes, I think the things that I would pick up in this are the idea of going further suggests higher standards, but as I was saying earlier many developing countries are very critical about the way that the EU CBAM is being introduced, you know green protection has been talked about, and I think if the UK were to go down the route of saying yes we're going further, we're going to have a more stringent regime then it would really need to ensure that it was having a good diplomatic dialogue with affected countries, particularly developing countries, to explain why they were taking this approach and how it linked into their other policies around climate change and as we've just been hearing bringing our own house in order on the ETS is an area where we might look if we were taking that approach as the UK, we might look that we don't have our house in order. Again, as was just mentioned one of the key areas is this sort of phase out of E3 allowances under the EU scheme and that again is something that is seen as a strong environmental move and not some kind of green protection, so that's something else that would need to go alongside any sort of UK higher ambition CBAM. And then there's a debate and I've heard a bit more about this in response to some of the next questions that potentially exempt exports or products going from least developed countries and climate vulnerable countries into global supply chains that are ending up in the UK, the exemption is a tricky slope to go down but thinking about how potentially the revenues from actually the collection of the CBAM at the UK border, that could be used to support those countries actually being able to comply. So having to be able to reduce their cost and actually to help grow their domestic industries, so a couple of other sets of issues around the UK going its own route. Thank you.

**Philippa Whitford MP**

Obviously, that's really the key issue, many of the countries in the global south are much more affected by climate change and therefore you know, understand it to a physical degree often more than we do. But it's trying to get that circularity of actually supporting them to change.

**Laura Kelly**

Yes, and I think that's rather than going down an exemption route, going down a route collecting the revenues and then using that technical assistance and that's an issue that the EU CBAM is not very clear on, so that would be one thing that if they were going to do something different or even whatever the UK does, that is something that [inaudible 0:32:35.3].

**Philippa Whitford MP**

Thank you very much. Back to you Chair.

**Geoff Mackey**

Thank you very much Philippa, that's appreciated. Alan, if you may?

**Alan Winters**

Yes, thank you very much panel. One of the other arguments that has been sort of introduced to prevent alignment is that if the UK aligns with the EU in various ways, it makes relations with other countries more difficult. So, I'd like to ask to the extent, presuming that the UK chooses to introduce a CBAM and align its ETS with the EU, so that we really are basically within the EU system, what are the potential difficulties that that raises with other countries? I guess in a sense you've answered this already Laura but let me start with you if you want to enlarge at all on that answer.

**Laura Kelly**

Thank you, Alan. Yes, I actually, and my colleagues who might have more technical understanding of the UK and EU systems and might be able to offer more on this, but I would say that by and large certainly from the countries that we engage with that there wouldn't be disbenefits of the UK aligning with the EU. Obviously if there were particular bilateral trade deals that the UK was trying to do with countries and India has been quite an elusive one, but I'm not sure I can see how the UK could offer something under a bilateral deal with India, you know there's supposed to be reciprocity in trade deals so it's very difficult to see where there may be benefits for other countries that the UK is trading with, and the UK doing its own scheme.

**Alan Winters**

Thank you. Chimdi?

**Chimdi Obienu**

Yeah, maybe similar to what Laura was just saying, I think that the potential international tension comes from the existence or the implementation of CBAM itself, but it's not necessarily different if the UK chooses or doesn't chose to align with the EU. I think that also on what Laura was saying there's a potential opportunity whether or not the UK aligns with the EU, an opportunity on mitigating the impact of CBAM to developing economies. I think that as Laura said the text in the EU regulation is incredibly vague about giving some technical assistance and monitoring the impact, and so whether or not the UK is aligned, the UK could choose to go further in terms of providing that technical assistance, providing that finance, so I think that's something to focus on. And again, regardless of whether there's alignment or not, we are going to see some degree of tension because of CBAM. A lot of commentators are still not even sure if CBAM will be ultimately implemented. There's going to be continuing challenges in the World Trade Organisation. India, I think has already threatened a retaliatory measure relating to it. But I think ultimately if CBAM is implemented, if it works as intended, it will encourage other countries to set up their own emissions trading schemes. Many of these countries will then need to set up their own CBAMs or supply their own kind of financial packages to protect domestic firms, and so this will also induce tension in the same way that the US Inflation Reduction Act has kind of upset a lot of EU officials for having domestic protections embedded in that. So, I think there will be tension regardless, I'm not sure how much the tension will be specifically related to whether the UK aligns with the EU or not.

**Alan Winters**

Thank you. Luca?

**Luca Taschini**

I don't think ... suggested, I think it would just note one thing. UK trade partners closely resemble European trade partners, in fact EU is one of the largest UK partners beyond China, US and Switzerland. So given this similarity I wouldn't anticipate significantly different responses from those partners compared to the action that we currently witness in response to the introduction of a European CBAM.

**Alan Winters**

OK thank you, since you're all so commendably brief, I'm going to try and steal an extra bit of time and ask a supplementary. So, the US has got a completely different approach to this, and we're sort of seeing it in their proposals about steel and aluminium, you know why don't you come into a little club. Is the argument that we've heard in so many other cases that indeed we're going to not bother with Europe, we actually are going to align with the US. Is that at all a credible position for a UK Government to adopt? So sorry, no notice of that but if anybody wants to wave their hand and contribute, I'd be very interested to hear.

**Luca Taschini**

Can I address this by also adding one thing, because I think it's really important to recognise that the key objective of these type of broader carbon adjustments are primarily preventing carbon leakage, this is the mission number one. Mission number two is preserving industrial competitiveness. Now in that respect I think it's really interesting to observe that the way EU navigated the diplomatic relationship with other nations, in particular with US, there was this outcome where now US is willing to withdraw their objection about the EU CBAM as part of these ongoing negotiation aim at establishing the green steel club. So, clubs are very different but yet similar linking agreements, so that idea I think is quite interesting. So, understanding to what extent you can be part of a club or more precisely link your system I think is extremely important to understand to what extent you can reduce this price differential. At the end of the day this type of adjustment are about what exactly you're implementing domestically and what can be considered to be equivalent to what is currently implemented in Europe or in the UK.

**Alan Winters**

OK thank you. Chimdi, do you ... anything to add?

**Chimdi Obieniu**

I think that beyond potentially joining a carbon club, I think it's just more of a point of interest about the kind of different approaches to climate regulation in the EU, UK and US and it is, the US obviously has a very different political system, very different political landscape, but it just so happens that it is not politically feasible in the US to implement a nationwide emissions trading scheme. The people have been trying for decades and the only way that those who are interested in climate action can really get it through is by passing these huge subsidy packages. But even though subsidy packages, and we look at the billions of Dollars involved and they're great, but they will still face regulatory hurdles to be implemented. The funding will still need to be approved each year and there's no guarantee that the emissions savings that are ... the potential emissions savings that are bandied about when the subsidy packages are released will actually come to fruition because the funding and the implementation can be blocked at various stages at the national and state level. And so I think the US approach does often look quite attractive, but I think having a solid, robust

regulatory mechanism in place, like an emissions trading scheme, I do ultimately think is a better path to be going down, and I think it is a good thing that the UK and the EU have emissions trading schemes that are underpinning the emissions reduction and Net Zero strategies as opposed to every few years putting out as much money as you can get away with, which is kind of what the Americans do. So that would be my point there.

**Alan Winters**

Thank you, I entirely agree. Laura?

**Laura Kelly**

Yes, I think the only thing that I'd add to that is the sort of club approach in other areas of leading countries who wanted to come together and do things, again tends to send alarm bells to countries in the global south with concerns around green protections or trying to go further faster alone and then leaving countries behind, so that would be my only additional comment on going down the route of the US approach.

**Alan Winters**

OK thank you very much, let me pass back to Geoff. Thank you.

**Geoff Mackey**

Alan, thanks very much. That added quite a lot of volume I thought, I really appreciate that. Stephen to conclude this session, over to you please.

**Stephen Farry**

Thank you very much Geoff and good morning to all of our witnesses. Yes, as Geoff says I'm asking our traditional final catch-all question which is to ask each of you to maybe just encapsulate your evidence as briefly as possible for us in a summary format and either give us the three key points you want us to take away, or the three key recommendations that we should take away. So, I'll start with Laura please.

**Laura Kelly**

Thank you, yes I think the first thing particularly coming from the perspective of the least developed countries and climate vulnerable countries is that the revenues that are collected at the border related to their exports, their imports into the EU [sic] should be invested in supporting their green economic just transitions, so that's important particularly when we're looking at the cost of addressing climate change being far beyond what domestic revenues or aid are going to provide and leveraging private finances is a big part of the debate. Something like this is not going to provide huge resources but anything that does help that actually helps to ensure that countries could spend on health, education and social spending. The second related point is where I mentioned products coming into say the UK from the EU, that when the approach of looking down the supply chain to the primary producers and then the products going through several different countries that actually thinking about where the primary products are coming from, this is particularly the case with Bauxite and aluminium, so that the whole supply chain approach is taken and that is more complex, we've been hearing about the

complexities of this from others, but that that's an important part of ensuring again that some of the lower income countries and primary producers of goods are integrated into these systems. And then the other is the UK has historically been a leader on trade and development issues and that in its thinking about development of this ETS and CBAM, that it should really try to ensure that it maintains that integrity and implementing its environmental policies it thinks about the development implications of that. So those would be three things that I would be advocating for the UK to think about in the development of its CBAM. Thank you.

**Stephen Farry**

Thanks Laura, and over to Chimdi.

**Chimdi Obieniu**

Thank you. So I think the three points there, so I would have mentioned all of these at some point before, but the first one I would say is to sort out the UK ETS first, I think that means having a clear road map for how the system is going to develop in terms of the sectors that are going to be covered, in terms of how free allocations are going to be covered and then with that as a foundation laying out how CBAM will be designed to fit into that vision and to facilitate the further development of the system. So, the first point would be to sort out the UK ETS. The second point would be to use this consultation process to properly understand industry, the companies that are going to be affected by CBAM. Understand what it will mean for businesses in terms of the reporting obligations, the potential financial costs, and the ways in which the Government can potentially lighten the load, either with a different policy design or with technical assistance down the line. And then the final point would be to learn from what is currently happening in the EU, learn from the implementation in the EU. So I think underlying this kind of session has been sure, the UK is somewhat behind the EU in terms of ambition when it comes to carbon pricing, but I think this is definitely a case in which being a follower comes with opportunities and I don't think the UK Government should waste this opportunity to see what's happening with the EU and how either if we're linking or we're saying we're going with our own system, how we can ensure that it is better, more effective and easier on businesses going forwards. So those would be my three points.

**Stephen Farry**

Sure, thank you very much. And over to you Luca to have the final word.

**Luca Taschini**

Thanks a lot. OK, so maybe reiterating some of the things I was mentioning earlier. So given this inter-twined nature of the UK and the European economies, and also the potential implications of a European CBAM, I think it would be prudent of the UK to consider a UK version of a CBAM as aligned as possible to the European CBAM. I believe that this alignment would help control potential market distortion and crucially, and Chimdi already mentioned that, it will also simply compliance work for companies directly operating in both regions. Whether we go for a UK CBAM or not, I think it is also important for the UK to develop a clear transition plan that outlines our intent to either integrate or design our own CBAM or integrate the CBAM into the existing ETS or even start a negotiation or a consideration of linking. And the last one is what exactly Laura mentioned, I think engaging trade and environmental conversation, I think the UK should engage in diplomatic efforts to coordinate, perhaps even together with Europe and other major trading partners. I think it's also important to notice that after a much more credible discussion about CBAM, the number of countries and jurisdictions that have implemented an ETS, and explicit carbon price, whether an ETS or a

carbon tax, have been growing quite significantly. So, the old policy, the old threat of an introduction of an adjustment via the trade mechanism has been quite effective I think in the introduction of ... or actually forcing in a way other countries to implement similar things. And I would at this point I wouldn't entirely disregard the possibility to resume or actually start a conversation about linking the two systems, the European one and the UK one. Thank you.

**Stephen Farry**

Sure, thank you very much. Thanks to all three of you, and back to you Geoff.

**Geoff Mackey**

Thank you very much Stephen. A really interesting session on something that is very strategic. I think I've heard a lot of words about complexity, funding, costs and regulatory hurdles as we move forward with this area. We've got time for a short break before our next sessions which will look at Net Zero and they UK's trading conversation and ETS, so could we have a short break for a few minutes, please fill your cups and I'll see you back here a couple of minutes before 11 o'clock. Thank you.

*[Break]*

**Geoff Mackey**

Good morning and thank you very much for joining us on the second half of this morning's evidence session. A really, really interesting start today looking and examining some of the conversations around CBAM and we're going to move on in our second session look at Net Zero and ETS. To start the session off and before the first question, could I take the opportunity to both welcome the witnesses and ask them to introduce themselves please, as always in these things could I ask both Commissioners and answerers to be pithy and sharp during our session please. That's always appreciated. Thank you very much. Could we start please with Gudrun?

**Gudrun Cartwright**

Hello, I'm Gudrun Cartwright and I'm a Climate Action Director at Business in the Community which is a network of over 600 businesses focused on creating a fairer and greener world led by fairer and greener businesses. Lovely to be here.

**Geoff Mackey**

Thank you. Esin.

**Esin Serin**

Hello, good morning, thanks for having me today. I'm Esin Serin, I'm a Policy Fellow at the Grantham Research Institute on Climate Change and the Environment. We are based at the London School of Economics. I focus on the UK climate policy and sustainable growth and I work really closely with colleagues at the Centre for Economic Performance where we try to identify the UK's competitive advantages in green technologies to look at how the UK can capture growth opportunities

as it transitions to Net Zero and today's conversation I'll try to bring that sort of industrial policy and growth opportunity perspective to trade. Thank you.

**Geoff Mackey**

Thanks, you Esin. Practicality, pragmatism and looking at things is always helpful. Jonny?

**Jonny Peters**

Thank you Chair. So, I'm Jonny Peters, I'm a Senior Policy Advisor covering trade at the climate change thinktank E3G which is based here in London but also in Brussels, Berlin and DC, so a pleasure to be with you today.

**Geoff Mackey**

Thank you, welcome to all of you and we move onto our first question. Deborah please?

**Deborah Annetts**

Thank you very much indeed and it has been a really interesting session and hopefully this is going to be equally interesting. So, my first question is to what extent is the UK's trading landscape, which of course has changed in recent years, compatible with the UK's Net Zero goals, which of course are Net Zero by 2050. So, Esin, could we start with you first do you think?

**Esin Serin**

Yes, thank you. So, to this broad question, making the UK's trading landscape compatible with Net Zero should mean both, ensuring the UK is trading the things and, in a way, to deliver its own Net Zero goals but also in a way to capture economic opportunities from the global efforts to reduce emissions. The UK's current trading landscape requires further progress on both of those aspects. As we know Net Zero means an economy-wide technological transformation and that means incumbent fossil fuel-based technologies will need to be replaced really fast by low carbon technologies at massive scale, and just as an illustration the International Energy Agency forecasted that global electric car sales will grow 18-fold by the end of this decade. Of course, that kind of export opportunity is not just the UK, many countries are already thinking about both getting their hands on enough of these technologies to deliver their domestic emissions reduction targets, but also which of these technologies they can produce competitively to capture growth opportunities from these growing export markets. And we are now operating in new economic and geopolitical realities, and we are actually seeing some divergence from that fundamental principal of the modern trade system which would suggest production should happen with the most economically efficient. The US in particular with its Inflation Reduction Act seems to have started this new age of green protectionism as it provides explicit support for some domestic industries, of green technologies, perhaps at the expense of efficiency. But in support of its own energy security and wider domestic economic objectives which notably includes levelling up deprived communities.

**Deborah Annetts**

I'm going to stop you there Esin because I want to come to the others.

**Esin Serin**

Oh right, sorry.

**Deborah Annetts**

The other experts, and I am very conscious of Geoff's words of pithiness, so Gudrun and then Jonny.

**Gudrun Cartwright**

I would say that the UK is now in a position after leaving the EU, to create new trade deals and to make those align with the Net Zero commitments that we've made. So making sure that we think about those commitments and those new trade deals in tandem is important, but also what we're seeing from our members is that having to operate in multiple jurisdictions around the World and having different requirements can be really challenging, so I think the UK has really been a leader in this and others are now coming up behind us and becoming much more ambitious. So, I think for the UK to maintain that position and give UK businesses the certainty that what they're doing at home is going to put them in good stead overseas is really important.

**Deborah Annetts**

Can I just ask a supplementary to that, if you have trade deals which basically are based much further afield than what we had with the EU, because the EU just geographically is closer to the UK, doesn't that by itself make it more difficult to reach the Net Zero target, if you're having to trade further away from your front door, or is that just a very simplistic way of looking at things?

**Gudrun Cartwright**

It's a really good question. I would say that one of the big sticking points, one of the big elephants in the room around trade is the aviation and shipping is not really included in anybody's calculations of emissions, so wherever things are coming from we need to think about who owns that, and I think that this is my response to one of the other questions around the UK's owning of its emissions is around that whole piece of what's ours and what's somebody else's. And I think it's true, there's a real opportunity to onshore things as well and think about how we can make things in the UK and export them. But there's a really difficult balance between the ability to support developing markets to build their own infrastructure for Net Zero and to do things in a way that helps us to meet our targets, as well as thinking about how we create new opportunities for people in the UK. So, there's so many different social-environmental aspects at play that it's not easy, there's no straightforward answer to these questions unfortunately.

**Deborah Annetts**

Yeah, OK. Jonny?

**Jonny Peters**

Thank you yes, so I think I might use this question as a chance to do a bit of scene setting as well, so I think it's worth recognising that the UK has obviously only had an independent trade policy post-Brexit and that's not a particularly long period of time still, and the UK's headline priorities have been, as many of you already know it's a kind of rollover EU trade agreement into UK trade agreements as fast as possible, and then secondly to set up as many trade deals essentially as possible to diversify UK trade post-Brexit away from the EU. And it's fair to say I think that green trade has fallen in as a lesser priority amongst those two higher goals, but that's not to say it hasn't featured as a priority. So, we saw in 2021 that the Board of Trade, then under Liz Truss interestingly enough, published its report on green trade and that was ahead of COP26 probably as the driving force for that. And what was interesting in the Board of Trade report is that they kind of major on the ways in which trade liberalisation can support green trade, so they point to for instance the UK global tariff which is 2020 removed tariffs on over 100 green goods, and so we can see how the intersection with the liberalisation agenda and the green trade agenda worked for the UK in that context. But where the Board of Trade was particularly weak was on this competitiveness dimension which Esin already pointed to. We saw for instance in the Board of Trade report, Board of Trade members essentially using it as an opportunity to dismiss CBAMs as green protectionism without really diving into any of the detail around why these measures might be warranted. And I think particularly in the wake of the Inflation Reduction Act in the United States and the European Union's responses, the competitiveness dimension of green trade is rising to the top of political agendas worldwide, but it's notable that that's not really the case in the UK at the moment, and the UK is failing I think to come up with an adequate response to the rise of industrial strategy globally. I think this is where we kind of need to see an evolution in the UK's thinking in this space in terms of how we talk about green trades.

I think if there's one area that I point to in terms of where the UK actually has more of a positive story to tell, that's been around export promotion and the role of UK export finance in this space, so ahead of COP26 the UK's Export Credit Agency UKEF, made a clear decision to stop financing fossil fuels internationally and used this as an opportunity to bring other countries with the UK around this at COP26. And we saw the previous Trade Secretary, Annemarie Trevelyan, really major on this in terms of her definition of what green trade is for the UK, and that was really positive to see. But I think unfortunately just to wrap up on this I think we haven't really seen a clear vision on what green trade is from Kemi Badenoch, current Trade Secretary, instead I think we've seen the Government looking again back to its original priorities, diving ahead in terms of CPTPP accession, the India trade deal and increasingly I think we're going to see with the Gulf Cooperation Council as well, essentially side-lining green criteria in terms of going for those higher goals that I mentioned before, and each of those in order I would say increasingly at odds with the UK's Net Zero transition at home.

**Deborah Annetts**

That was incredibly helpful, thank you very much, and I'm going to hand back to the Chair, thank you.

**Geoff Mackey**

Thank you, Deborah. Charles, please?

**Charles Rose**

Thanks Geoff. My question is about how much the World Trade system and I think the earlier speakers have indicated that there's a degree of flux in this, supports the transition to Net Zero and what level of confidence do you have that the current initiatives either at a global level support this and also in relation to the UK. Can I ask Esin to start with this one please?

**Esin Serin**

Yes, thank you. Many here will already be familiar there are many, many platforms where it's been tried to make the global trade system compatible with the delivery of global Net Zero emissions and that's not only the World Trade Organisation and its recent launch of the structured discussions on trade and environmental sustainability, and now we get work explicitly on aligning international standards by the International Sustainability Standards Board, and then more recently the coalition of Trade Ministers for Climate Action was launched with an aim to bring Trade Ministers from around the World to work together on that nexus between climate and trade. But despite this complex landscape of initiatives, platforms and dialogues that do exist, I'm not confident that current efforts are sufficient to fully align the World Trade system with the transition to Net Zero, and that's down to two main worries. First is the pace, the examples illustrate there's a lot of dialogue and there have been attempts in the past to reach this common definition of what an environmental good is and should be, but the pace at which that dialogue translates to action, if any, is simply too slow, and that's probably not unique to trade or even climate, but just an inherent aspect of international diplomacy, which would bring me to the second worry which is on fairness, as my fellow witnesses have already touched upon as well, it's difficult to achieve international agreement on trade given how different countries are coming at this question from a whole set of different priorities and circumstances, but that shouldn't mean developed economies unilaterally act to favour cleaner producers in a way that simply transfers market share into developed economies and leave developing economies behind. Instead we should have inclusive international dialogue and support for developing countries' ability to compete in international trade in a Net Zero world and that's just in recognition of developed countries, historical responsibility and global emissions, and the UK actually has a moral responsibility to use its voice and its historically strong diplomatic skills in international forums to work towards that fairer outcomes internationally.

**Charles Rose**

Thank you, I think that's given us a flavour for some of the competition in here. And Gudrun, can I move this one onto you to see what you have to add to this?

**Gudrun Cartwright**

Of course, thank you. So, I would say that there's no White Paper for how we're going to get to Net Zero and how we're going to align these trading and tackling the climate emergency in a fair way. So the key things that we hear is that business leaders they need clarity on the journey, so and they're very keen to be able to work across their global operations to make things happen with their suppliers, so for example, Sky have been working with the manufacturers in China to co-invest in solar panels on the roof so that they're both getting the benefits of being able to deliver lower carbon goods and lower costs for both businesses. But that's not as a result of the way the World Trade system is working, it's as a result of leadership from an individual company. So, I don't think that the World Trade system supports a transition at the moment and there's an element of World leaders needing to think about this in the collaborative sense of it's a shared global challenge that we all need to get to, and all of the severe weather events we've seen over the last few years are showing us that. We need to work together, so this becomes a non-competitive issue, how do World leaders in a political, in a business, in civil society do that and come together so that we can both have a just transition that means we are getting to Net Zero, we're building resilience and we're lifting people out of poverty as a result of the transition, because it feels a bit like at the moment there's an assertion being made that we can't do both and I think we can. So, I think it doesn't at the moment, but it can, and it really requires joined up leadership.

**Charles Rose**

Thank you, I think that really highlights the problem of collective action across territories, across industries and the competition between the various objectives in this whole piece. But thank you for that. Jonny, what do you add to this?

**Jonny Peters**

Yes, similar reflections I think in terms of the WTO has certainly been slow to respond to climate issues, it's Ministerial conference in 2022 was only the first time the WTO even managed to mention climate change in an outcome statement, just to give you a sense of how slow things are. I think there is increasing appetite though for the WTO to do more on trade and environmental sustainability, we've also heard already mentioned the trade and environmental sustainability structured discussions, they've had the plastics discussion and the fossil fuel subsidy reform discussions, all very useful kind of own initiatives that are running in this space and they're valuable, but I think I would say these are largely official level discussions, generally quite technical. I think really what we're lacking here at the moment is a real kind of political uplift and efforts in terms of agenda shaping, in terms of the overall way in which trade and climate is discussed at the WTO, and basically just to echo in this respect a lot of support for the new Coalition of Trade Ministers on Climate that was launched in January this year, and I think that's really going to start plugging this important political gap at the WTO level. We'll be seeing more in terms of initial priorities, potential outcomes to the Coalition of Trade Ministers on climate by the time of the next Ministerial conference in February 2024 and I'm hopeful that the UK will continue to support some of this and bring, like I said before, some of those areas where the UK has a positive story to tell. Bring that up to that forum in that discussion to get other countries to move with the UK, for instance on clean export promotion that I mentioned before.

**Charles Rose**

But what you say suggests that there's a jury of flip-flopping here and movement up and down the agenda and priority map, if I can call it that. And then a degree of reliance on organisations like the WTO to implement policies or to design and implement policies, and I wonder what level of confidence you've got in that as a mechanism for driving this agenda?

**Jonny Peters**

Yeah, it's a great question. I think the WTO's role is evolving at the moment, I think it's fair to say, and I think increasingly for issues like this, I think we increasingly can start to think of the WTO as more of a venue as much as anything else rather than a particular kind of rule making forum for discussions in this space. So, we know that Ministers want to go to the WTO, we know that developing countries attend in earnest still at the WTO, important actors like China still attend and engage regularly at the WTO, so it's a very useful convening space for a lot of this stuff. I think what we're missing, like I mentioned before, is a clearer sense of how we're going to use this politically and I think there's more of an uptake now in Ministers wanting to say and do things on green trade. I think there's less of a clarity in terms of what that really looks like and what that really is, but this is why I think agenda setting is really important and new initiatives like this Coalition of Trade Ministers I think will be incredibly helpful.

**Charles Rose**

Thanks very much. Can I hand back to the Chair, Geoff?

**Geoff Mackey**

Thanks very much Charles. Can we move onto Mike please?

**Mike Cohen**

Thanks Chair. My question I think has already been touched on several times by speakers but perhaps you can elaborate a little bit. I'm interested to know whether you think that the UK takes a holistic view of trade emissions and whether the UK could be doing more to take tangible steps to reduce emissions as part of trade deals. Can I turn to Gudrun first please?

**Gudrun Cartwright**

Yes, thank you. So, one of the things that seems clear to me is that the way that we operate our counting of emissions is all about our domestic emissions, so in the UK we imported over £900 billion worth of goods in 2022, but we don't fully account for the emissions of those goods. We certainly don't in what we say our carbon footprint is, and we measure our performance against. And so when I look at the businesses we work with, they're all looking at their Scope Three emissions which is the stuff that's not under their direct control and if the UK could start to incorporate its consumption based emissions into its targets, into its measurement of its own performance, that would be ground-breaking, and I think as we are now becoming a country that is making trade deals on its own, in the future as this becomes much more of a pressing issue and you know we've talked about the Inflation Reduction Act, we've talked about China, countries that manufacture the stuff for us are going to want us potentially to own our emissions as part of trade deals, because they're going to become something that has value or cost as we move forward. So, I think at the moment we don't, but I think we could, and we should be starting to do that.

**Mike Cohen**

Thank you, so crucial to incorporate an understanding of the emissions caused by our consumption into our understanding of our footprint. Jonny, can I turn to you for some thoughts on that please?

**Jonny Peters**

Yeah definitely, only to basically endorse all of that, I totally agree. So, to go back to the original question, does the UK take a holistic view of the emissions caused by trade. The short answer is no. And to be fair by the exception of one possible exception which is Sweden, I don't think any other countries globally do. And I think this is because traditionally under the UN Framework Commission on Climate Change countries were brought on and set their climate targets on a territorial basis, so within the bounds of their country rather than on a consumption basis as has been said before, so considering the emissions of their imports from other countries. I think it's really important that countries do increasingly start to consider the emissions of their imports. The UK's consumption emissions footprint for instance would be 40% higher than is currently stated on the territorial basis if we do account for all of the consumption-based emissions, so including our imports. And I would say excitingly in this space the UK's Committee on Climate Change, the CCC, is now starting to consider consumption emissions in the context of its next carbon budgets process for the UK, for setting the UK's future climate targets. And we know that the UK's 2008 Climate Change Act and its carbon budgets process is truly World leading and has done a lot I think to set the agenda globally in terms of how other countries have then followed and I think there's a lot of potential for the UK to start using this framework to increasingly start incorporating consumption based emissions accounting under this

framework to then set a bit more of a precedent globally for other countries to follow. In terms of what this could tangibly mean for the trade space, I think one way in which an increased consumption based emissions focus could be really useful would be in the context of impact assessments for trade deals, so if we could have more of a robust view of how a proposed trade deal would impact on the UK's consumption based emissions footprint, we could then have a much clearer sense of the impacts and their methods that we can take to then address these impacts. Because as mentioned before earlier in the conversation it's not necessarily clear cut in terms of how far away a certain country is in terms of whether the emissions footprint increases, because it depends on how that product is produced in a country so a country could be really far away but they could have a very clean energy grid, and so actually overall their imports and so on might actually end up being cleaner than some imports that were made closer to the UK but were made using coal power for instance. So, it's not that clear cut and I think it's very useful to have more robust data and accounting to support us taking clearer action in this space.

**Mike Cohen**

Thank you, so detailed and robust emissions assessment as part of trade deals as a tangible step to improve that picture. Esin, have you anything to add to that?

**Esin Serin**

I would just really echo what's already been said. Holistic view of emissions caused by trade does require the UK to aim to reduce its consumption as well as its territorial emissions and I guess I would add whether regardless of the UK taking that holistic view or not, part of the problem is being solved anyway by the UK's trading partners increasing their own emissions reductions targets, the Climate Change Committee made a calculation a few years ago within its sixth carbon budget and even at the time it found that around half of the UK's imported emissions were already from territories that already were due to be covered by Net Zero targets, but even so the UK's consumption emissions have been falling slower than the UK's territorial emissions, so yes there is certainly more the UK can do for emissions reductions in trade deals. On that I know that carbon markets and border adjustment mechanisms [ph 1:23:51.2] have been discussed in detail in the previous session, so I guess another way to approach that question is the UK working with trading partners explicitly to achieve similarly ambitious emissions reductions within respective borders and that would really serve to reduce the risk of carbon leakage in its tracks and some specific proposals to achieve that outcome include minimum environmental standards for imports, removal of trade barriers to environmental goods and services and also requiring credible Net Zero targets and plans from any potential future free trade agreement partners. Also, I would also like to echo the part on whether we're able to properly account for our consumption emissions, that sort of holistic view should really adopt the principal of you can't improve what you can't measure, and really aim to improve the quality of the UK's consumption emissions data which is inherently complex to measure and even though it's a recommendation to adopt a consumption emissions reduction target, it's being proposed by various actors, I think the Climate Change Committee has been reluctant to recommend that for that reason because it's so difficult to measure and monitor.

**Mike Cohen**

Thank you very much, thanks to all of the panel for that.

**Geoff Mackey**

Thank you, Mike. Paul please?

**Paul Blomfield**

Thanks very much Chair and I wanted to ask something fairly specific around a key sector, automotive sector, which has probably faced as big a challenge as any post-Brexit and the UK strategy was to try to build on some potentially competitive advantages that we had in relation to the transition to electric vehicles, although that's a bit up in the air after the Prime Minister's recent announcement on the transition date. But I'm conscious that in a couple of months the rules of origin are going to tighten up substantially on batteries, now there might be some delay in that, there might be some grace period, but I guess what I'd like from panellists is some sense of how far we can realistically have any competitive advantage in this sector, what's the viability of the sector in the longer-term, and perhaps I'll start with Esin?

**Esin Serin**

Yes, thank you. On this I would clarify I'm not an expert on the rules of origin in particular but I could talk to the overall landscape and yes, so far the UK has been late in the game to try and capture the opportunities from the transition to electric vehicles and as you've also pointed out already the UK car manufacturing as a whole was already on a decline since 2016, so it's a post-Brexit related issue than it dates prior to the increased explicit climate related support for EVs from international competitors like the US and the EU, like sure the Inflation Reduction Act is going to have an effect, but it was an ongoing issue anyway for the UK's automotive industry. And the UK also appears to have failed to be proactive in laying the foundations for a future EV industry, again as you've pointed out that's about battery supply chains, the UK currently only has one operational plant for battery manufacture and has seen a plant Gigafactory go into administration earlier this year, only recently Tata Group has committed to invest in a major Gigafactory in the UK, but when we compare that to the EU, the EU has already seen plants for, I've seen different numbers of this but it's been 35 and 50 Gigafactories being announced already. So in terms of the viability of the sector long-term, there appears to be one clear action that's needed and that's long-term certainty for business to invest in the future EV industry in the UK and that needs to include proactive thinking about the resilience of supply chains, especially when it comes to critical products like batteries and that's going to be about stronger international cooperation and also actions to enable smoother trade with trading partners and special effort to remain part of the European supply chains. It's also really hard not to comment on the Prime Minister's recent speech in this question, so that kind of delay to the phase out of the sale of petrol or diesel cars from 2030 to 2035, this kind of watering down of well-established targets is a real threat to business confidence and appetite to invest in the UK, and while we should absolutely aim to deliver the Net Zero transitioning of fair way, allowing consumers to buy a petrol vehicle post-2030 does not actually help with the Cost of Living Crisis today, and it probably doesn't even change how fast EVs will be adopted in the UK, because the costs of changing in favour of EVs over petrol vehicles anyway both in terms of upfront and operational costs, and then the Government is also keeping the zero emission vehicle mandate in place, so the manufacturers are going to have to transition their fleets towards EVs anyway, so I can't really see any clear benefits either for consumers or industry from this kind of diluting the demand side signal, it will just likely make it harder for the UK to capture the industrial and export opportunities from the transition to EVs. So, I would say for long-term viability this kind of start-stop approach should absolutely be avoided.

**Paul Blomfield**

And obviously gives none of the certainty that you said was essential for business. You said you were hesitant in answering that question but that was a very comprehensive response so thank you for that. Gudrun, is there anything you'd like to comment on in terms of the viability of the auto sector?

**Gudrun Cartwright**

So, it seems that the key thing for the UK in this regard at the moment is really how do we make it work at home, so that we can be part of the what's happening in the World. So I hear from businesses that the infrastructure, the operational ability to transform their fleet for example is really difficult, so if we want to be in a position where we are able to demonstrate and become a country that has a thriving industry it's important that we almost start this from home, but also thinking about it from a just transition perspective, you know it is not even when the costs come down, the infrastructure for charging, so if you live in a block of flats or if you live in a terraced house, that ability to be able to use the technology is limited. And I also wanted to make a brief comment on the transition from a health point of view, because I think we mustn't forget all of the issues around air quality and how this transition is really important for health, so I was in Bradford yesterday and they've had a clean air zone and they've got really clear evidence from a big longitudinal health study of how making the ... reducing the air pollution from vehicles is having a tangible effect on people's health and saving the NHS and other sectors of society money, so I think for me this is not just a trade issue, this is a domestic issue for people and businesses to make the UK's infrastructure resilient and low carbon for the future.

**Paul Blomfield**

Thanks very much. I think that's an important point to add and particularly from a fleet purchasing perspective which is critical in the auto sector. Jonny, anything you'd want to add before we move on, I'm conscious of time.

**Jonny Peters**

Yeah, no just similar remarks I think firstly just to address the really negative impacts of the Prime Minister's recent back-sliding on the phase out date for new petrol and diesel vehicles, but the strength of pushback from the automotive sector itself shows what a blow this is to investor confidence when the UK could otherwise be more forward leaning in the transition to electric vehicles and capture [inaudible 1:33:38.8] advantages. The UK needs to be attracting investment in Gigafactories like we've heard and rolling out charging infrastructure and a clear regulatory environment is fundamental for this, as is an industrial strategy, and indeed other right trading conditions. And I think just to go onto your last point about the rules of origin issue, it's looking like the UK might be able to secure a temporary reprieve in the introduction of the stricter EU rules of origin requirements, which would be welcome, but ultimately we know we need a long-term solution to this issue, otherwise we're just going to encounter this cliff edge moment again in a year's time.

**Paul Blomfield**

Sorry to interrupt but do you think the sort of extension, the reprieve we might get, the length of it, or the extension of any grace period is going to be sufficient for us to address some of the issues that Esin referenced particularly in relation to battery production?

**Jonny Peters**

Yeah, not at all, because it's fundamentally a lot of it is required on the UK producing batteries at home and given that we are definitely nowhere near at scale of doing that, we're nowhere near closer to meeting those requirements. And we know that in the context of Chinese competition in this space, China is rolling out EVs and batteries at scale and that kind of backdrop in the geo-economic space is even further competition for the UK in this space. Ultimately that's the reason why the EU has these

rules of origin requirements and criteria is partly from a kind of China de-risking standpoint, so I think the backdrop is gloomy for the UK, even if it's only an extension of a year, the UK being in any better place to meet those requirements in time. So I think what we need really in this space is to have a more full approach, as we've seen time and again basically, in the overall UK-EU relationship, its investment in the overall UK-EU relationship that enables tangible progress on individual issues and I think there's a lot, I think we'll come onto some of this later on today, but there's a lot that can be done in the overall UK-EU relationship on climate and energy which could be elevated ...

**Paul Blomfield**

Yes, I'll probably draw a line, we probably will come onto that.

**Jonny Peters**

That's fine.

**Paul Blomfield**

I'll hand back to the Chair, but thanks Jonny.

**Geoff Mackey**

Paul, thank you very much. Philippa please?

**Philippa Whitford MP**

Thanks very much Chair, I'm going to change onto one of the other big environmental issues which is of course waste, waste production and waste management. Obviously, the UK Government has blocked the Scottish deposit return scheme and said they must align with the UK scheme due at the end of 2025, of course the Prime Minister's recent statements throw into doubt whether that will happen. So with the UK being second largest producer of plastic waste and exporting over 60% of it, and yet on the other hand companies like Coca-Cola say they can't get enough recycled plastic to make all of their bottles, can I ask Jonny then Gudrun on this one, could a more circular economy and serious recycling help tackle the problem of exporting our waste, and equally how do trade rules and trade patterns support or undermine a circular economy. So, yourself first Jonny.

**Jonny Peters**

Yes, sure, so to take that last part first, I had to speak to some trade lawyers to get you an answer to this, but in general the short answer is that multi-lateral [ph 1:37:15.6] trade law, the multi-lateral trading system is neither impeding nor enabling the transition to a circular economy. There are some ways in which the multi-lateral trading system is presenting difficulties, for instance we don't have adequate means in terms of distinguishing between recycled and non-recycled goods in terms of tariff codes, so those sorts of things could be addressed and investigated to kind of help in future, but in general just to kind of endorse your point that a circular economy approach will undoubtedly limit the amount of waste plastic that would need to be exported and so just to massively endorse sustainable alternatives, reusing, recycling being part of this solution to addressing the exporting of plastic waste.

**Philippa Whitford MP**

So actually, having even just different codes so that we know what is recycled plastic and what would put us as we heard earlier, it's hard to improve something if you're not measuring it in the first place, so that would put us in a better place. But also, what about trade patterns and the trade deals that we're doing, you know, obviously particularly the further flung ones, the ones that we're hearing about, obviously the CPTPP but also Gulf etc, which are very fossil fuel orientated, are we actually likely to end up with weakening our position regarding waste or do you see trade patterns and trade deals helping improve that, or actually are we just ignoring that altogether?

**Jonny Peters**

Apparently mainly ignoring. I think what's interestingly happening increasingly globally is that developing countries are having enough of importing our waste, we're seeing more and more countries bringing in import restrictions basically and so to an extent actually our hand is going to start being forced in some of this space, particularly if developing countries don't have the infrastructure to take on a lot of this waste and recycle our own and manage it. So, I think to some extent it's important to have a forward leaning circular economy strategy at home because there's a very real chance that some of our traditional importers of the waste will start no longer accepting it.

**Philippa Whitford MP**

OK thank you, and Gudrun?

**Gudrun Cartwright**

Thank you, I would agree with that. I think the market does not incentivise the use of non-virgin materials in any real form at the moment, so there's no strong encouragement to do that and I would also say that we should be looking at reducing the amount of plastics we produce, single use plastics, a lot of it is difficult to recycle anyway and we seem to have got fixated on the recycle level of the waste hierarchy rather than the reduce and re-use and I think that to incentivise and make it easy for manufacturers and retailers and individuals to refill and reuse things is the way that we need to be going, and being able to solve that would be a real opportunity for the UK in terms of then selling that technology to other places in the World that have got, we've all got the same problems and you know I met a really great lady in Bradford where I was the last couple of days whose been working with small food companies to ... with Borrow, they call it Borrow and it's cups and boxes that you basically borrow and you bring it back and re-use it, so I think we just need to be careful that we're asking the right questions and making sure that we are intervening in the system in the right places. But a circular economy is absolutely critical for where we're going to go for resource issues, you know there are a lot of resources that are becoming challenged, and I think we've got Net Zero targets but we also need to start thinking much more carefully about how we use ... you know if we're making plastics out of virgin fossil fuel oil for single use plastics, is that the best use of that material? You know, that resource? And how do we start to look at the biomimicry and doing things in a different way that we are able to use, what is a real strength of the UK is that innovation to develop these new solutions that help to tackle the problems at the top of the system, not at the end of the pipe.

**Philippa Whitford MP**

Obviously consumers themselves are driving some of this in that they want to re-use, they want to not have such a throwaway mentality, but do you think that the change in the Prime Minister's stance and

the Government's stance in general, obviously we heard about the not enforcing seven bins on people, etc, and no new recycling, you know here in Scotland as a Scottish MP I felt regardless of whatever difficulties we might have had, there would've been learning from our experience that would've made the UK scheme in 2025 perhaps easier, what went well, what didn't. Whereas now we're actually just stuck. So, do we have anything that is likely to take us forward other than consumer demand and its pressure on businesses to show that they get it, that that's what their customers want?

**Gudrun Cartwright**

I think we have business itself I think in many ways wanting to make the change, you know there's so much pressure coming from investors now around climate, around nature, around these issues. There's litigation coming from all sorts of places to look at, what businesses are doing. And also tackling you know, taking countries to task over what they're doing. So I see that the issue comes from all sides and you know we have done several pieces of research with YouGov and they have shown that people, they really want to do stuff but they need business and Government to make it easy and understandable and affordable, so you know we've got to ... at the heart of all of this is leadership and who's going to take that leadership, is it Government, is it business, is it civil society? And it needs everybody coming together. And I think one of the things that I would just comment on about the DRS in particular is that in other countries where it's worked really well they don't have a good kerbside recycling scheme and in the UK we do have a good kerbside recycling scheme and one of the challenges potentially is that if we do DRS it takes away some of the high value stuff that is currently collected at the kerbside that makes that work. So, with all of these things there's what you balance with what, but you know we need to think about what we can do and be really positive and proactive about that, and make sure we're intervening at the right level of the system. But I would say from our research and our experience with businesses, both want to create less waste, they want to re-use and they want to make things and use things differently, that policy framework and that policy certainty is absolutely critical to make all that happen.

**Philippa Whitford MP**

OK thank you very much, back to the Chair.

**Geoff Mackey**

Thank you very much Philippa, I think the question about infrastructure across the devolved nations is part of the dialogue somewhere is this one to say the least. Thank you very much for that. Charles please?

**Charles Rose**

Thanks. What are the benefits to businesses of the UK taking a proactive approach to achieving Net Zero and what sort of support do businesses need to de-carbonise, and what opportunities do the current and future UK trade relationships present for Net Zero collaboration, access to green technologies. I'll throw in just at the end of this a personal experience which is that as most of you know I'm a renewable energy generator and that we've had to turn down deals with various companies wanting to generate their own electricity from solar on their roofs, simply because the infrastructure doesn't exist to enable this to happen and it seems to me that you know, some of the energy that's available from businesses is thwarted by the lack of coordination on the infrastructure level. Can I put that to Esin first please?

**Esin Serin**

Yes, thank you. Great question. Just starting with taking a step back, the UK has a legal commitment to deliver Net Zero emissions, unless we see a change in law and so it can either chose to do this in a slow way, it can delay action as much as possible and very likely face a much higher bill further down the line because it would have failed to bring technology costs down earlier on, it will elongate its dependence on oil and gas and it would make itself vulnerable to increasing damages from climate change. Alternatively the UK can choose to deliver Net Zero in a proactive way as set in this question, that would mean frontloading investment, crowding in investment to build supply chains here in the UK of the technologies of the future and that would be the way to unlock export opportunities, regional benefits and jobs along the way that the UK delivers Net Zero. And that can include various specific policy instruments depending on different sectoral circumstances, that can be tax incentives, there can be R&D grants, risk sharing frameworks, public infrastructure investments, as you've suggested grid expansion and planning reform will be crucial to unlock some of these developments. And then also a really proactive focus on skills. But even with all these different policy instruments, perhaps more importantly all of these need to be woven into an overall industrial strategy that can outlive political cycles and that would be what maximises certainty for businesses, which are having to make these long-term investment decisions to be able to exist in a Net Zero world in the UK. And if we just recognise the UK's historically on and off relationship with industrial strategy, it might be helpful to recognise that it's not really a choice anyway because if the Government doesn't put on paper this explicit industrial strategy, then it just ends up with a backwards industrial policy which becomes about rescuing incumbent industries, but instead if the Government chooses to make industrial strategy explicit and forward-looking then it will maximise its changes to capture opportunities from Net Zero which many are now calling the growth story of the 21<sup>st</sup> Century.

**Charles Rose**

Thanks, Esin, I'm a little short of time and I'd quite like to just move this onto Jonny and then back to Gudrun.

**Jonny Peters**

Thanks yes but happy to pick up where Esin left off because I think I definitely agree with everything she said and I think we've seen with the example of offshore wind in the UK other than the recent failed auction but that says something about the current Government's priorities as well, with that story we've seen how the UK has been able to seize economic opportunities and energy security benefits by being an early mover in the transition and basically because of having sustained investment and also having policy certainty. In this new world of industrial policy we've seen the US Inflation Reduction Act, the EU's response, Chinese competition, the UK's competitive asset in this space was its stable policy environment basically underpinned by cross-party political support for the transition, and frankly recent moves by the Prime Minister has sabotaged this at a time when international investors are still sceptical about investment following his predecessor's mini budget. So, when it comes to trade and Net Zero, I think there's a lot of damage that needs to be rectified. The thing I'd point to in response to your question is actually elevating what I said before, the overall UK-EU climate and energy relationship, there's so much unimplemented stuff in the UK-EU TCA that needs implanting, we've spoken before about North Sea Energy cooperation and electricity trading, and ETS linking, carbon border adjustments, this rules of origin, all of this I think could be elevated to a higher political level as a package because it's in the UK's interest to cooperate in this space, and we're starting to see bits of this, business support all of this, I hear this regularly in the UK-EU Domestic Advisory Group under the trade deal, we just need a greater political attention emphasis to implement these priorities.

**Charles Rose**

Thanks very much, and Gudrun do you have anything to add to this quickly?

**Gudrun Cartwright**

I will quickly just add on the support businesses need to de-carbonise because I think that's really important. So, a stable policy environment, incentivising the right things and disincentivising the wrong things, I think is really important. Skills, ensuring that the skills landscape is right, thinking about things like the apprenticeship levy and other mechanisms that could be mobilised around green skills, and working at the different levels of national, local, devolved Government around key issues like planning and to enable the infrastructure are some of the key things.

**Charles Rose**

Thanks very much. This is another story about vision, leadership and implementation and it echoes through all of these questions and with that I'm going to hand back to Geoff.

**Geoff Mackey**

Thank you very much Charles, I think your summary is absolutely right as well. Just to pick this up to finish if I may ask our three witnesses today, could we just conclude this session by asking each of you for a couple of clear policy recommendations to the UK Government regarding trade and Net Zero? I know we've talked on the need for policy certainty and long-term thinking, but could we look for a couple of clear policy recommendations to go forward please? Starting with Gudrun please?

**Gudrun Cartwright**

So, my first one is that very point about certainty, we would really encourage the UK Government to understand its Scope Three [ph 1:53:21.3] emissions, its consumption-based emissions and start to embed those. It's hard, you know, it's the hardest thing that businesses are working on, but we can't pretend these things don't exist. And then to work with businesses to collaborate on the actions needed to ensure that the national and international actions on Net Zero work for the UK and for global organisations, but fundamentally to see Net Zero and climate action as an opportunity rather than a cost and a threat and balancing the cost and the threat of inaction against the cost of action, because we always seem to forget that in what we're doing, but a just transition taking into account people and nature as well as just carbon is absolutely essential.

**Geoff Mackey**

Thank you, Gudrun. Esin?

**Esin Serin**

Yeah, I think going against [inaudible 1:54:21.3] also make a high-level recommendation on certainty and something I've said multiple times by now, just putting forward a clear industrial strategy which

would enable the UK to capture growth from international trade in a Net Zero world, that would be the main thing I can add. And then secondly the Government should think really proactively about how benefits of international trade can contribute to a wider set of domestic economic objectives and in particular addressing regional disparities, some inspiration from the Inflation Reduction Act could be taken on that to just tie in provisions to support local communities and the development of skills locally, and then thirdly as I say the UK really needs to work to reinstate its position as a global leader on climate action and use that position to get other countries on board under this ambition to fully align international trade with Net Zero because recently we've seen the UK losing credibility in the international arena about how ambitious and serious it is on climate action and it will need to work really hard to restore that position, crucially at the upcoming COP but also at international dialogues throughout the year, and only then it would be in a position to demand more ambitious action from others on trade and on climate more generally.

**Geoff Mackey**

Thank you very much. The thought of having measurements and a plan, indeed. Jonny?

**Jonny Peters**

Yeah, just really quickly I'll summarise some of the stuff we talked about before in terms of multi-lateral, bilateral and unilateral priorities in this space. Multi-laterally I'd say focus on the Coalition of Trade Ministers on Climate, we've already discussed some of that stuff already, I don't need to go into that again. Bilateral I mentioned before the priority should really be the UK-EU climate and energy relationships, so really just emphasise those points again, and then lastly on unilateral measures I do think it's important that the UK introduces a carbon border adjustment mechanism circling back on your conversation before, thinking about the UK-EU relationship, ETS linking in that context, but also in particular coming up with a really credible offer for international climate finance for developing countries in this space, so recycling some of that CBAM revenue for international climate finance to help developing countries innovate, decarbonise and meet the new UK CBAM standards.

**Geoff Mackey**

Thank you, that was a good summary to finish. From my perspective it was a pragmatic and practical session, I really appreciate the evidence given today by the three witnesses, thank you very much for joining us. I think the opportunity for Net Zero and for the UK is very much part of the future thinking going forward. I appreciate my fellow Commissioners for their questions, and we are of course spot on time as I would always expect. Thank you very much everyone, have a great day.