

The Rt Hon Kwasi Kwarteng MP
Secretary of State for Business, Energy and Industrial Strategy
Department for Business, Energy and Industrial Strategy
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ETG Secretariat

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25 February 2022

By email

The Rt Hon Rishi Sunak MP, Chancellor of the Exchequer

The Rt Hon Anne-Marie Trevelyan MP, Secretary of State for
International Trade

**Could you please reply by
email to the ETG Secretariat
at john.craven@etg.uk.com**

The Rt. Hon. Greg Hands MP,
Minister of State for Business, Energy and Clean Growth

Dear Secretary of State,

**Industry uncertainty around the future of the UK Emissions Trading Scheme and its role
in relation to net zero plans**

The Emission Trading Group's (ETG) members represent a high proportion of the businesses covered by the UK emission trading system and its predecessor the EU Emission Trading System. ETG provides a forum for discussion and resolution of all aspects of emissions trading; uniquely it provides a regular forum for communication to take place between commerce and industry, the verification and trading communities, and relevant consultants, the UK Government, Devolved Authorities, and regulators.

Our members are extremely concerned about the lack of visibility of potentially significant policy changes – especially those relating to outstanding Government responses and actions - which are acting as a block to investment. This policy uncertainty must be removed. Specifically, we call on the UK Government to immediately take action in the following 5 areas.

1. Make progress on linking the UK ETS in particular with the EU ETS to increase market liquidity and enable the UK to avoid the significant administrative hurdles from a CBAM when exporting to the EU despite UK being subject to a higher carbon price. The UK could also be at risk of dumping of imports originally destined for the EU if no UK equivalent measure is put in place.

The ETG wrote to UK Government in February 2021 expressing support for the UK government to demonstrate its 'serious consideration' as per the 2020 EU-UK Trade and Cooperation Agreement to commit to negotiations with the European Union with a view to linking the two systems, ideally before the 30 April 2022 deadline for compliance. ETG is unaware that any such discussions with the EU have taken place.

2. Respond to the free allocation review call for evidence made in early 2021 by publishing one or more of the promised consultations following up on it. This must include proposing adjustments to the cap in line with a net zero trajectory, and policy ideas around how to make the UK ETS and carbon leakage mitigation appropriate for UK industry. There are other carbon leakage mitigation options, such as Carbon Border Adjustment Mechanisms (CBAM),

where clarity and visibility on the UK position would be helpful, especially to those sectors likely to be affected by a CBAM.

3. Publish the promised response to the 2021 consultation on Energy Intensive Industry (EII) compensation for the indirect carbon costs of UK ETS passed on in energy bills. The current compensation ends in March 2022 and was based on a much lower carbon price. Those that receive the compensation currently need to understand if it will continue, and sectors that have put forward evidence to show they meet the EU criteria when tested at UK level need to know if they will be eligible to receive this compensation.

4. Boost funding for the technology transformation and global competitiveness of UK industry to meet the Government's net carbon neutrality by its 2050 target. Funding must further draw upon the GBP 5.055bn proceeds available from the UK ETS auction revenue to date.

In their response to the Consultation on the future of UK Carbon Pricing in 2020¹ section 186, the UK Government and Devolved Administrations '*committed to exploring long-term options for accelerating the decarbonisation of industry to support the operational use of technology, while maintaining UK competitiveness. In addition to carbon pricing, these options include a long-term decarbonisation funding stream that comes from a share of a UK ETS, international agreements and product certification, demand-side measures, and other direct fiscal support*'. It was proposed to have an appropriate mechanism in place in the early 2020s.

5. Follow-up on the historic agreements at COP26 around the rulebook for Article 6 which provides a further route to link the UK ETS scheme to similar efforts around the world. This would provide for greater efficiency and help manage the exposure of UK emitters to international carbon prices. The government has not yet set out its approach if and how international certificated (ITMOs) would be accepted for surrender against UK operators' carbon obligations.

Finally, many ETG members were deeply disappointed that no action was taken following the triggering of the Cost Containment Mechanism (CCM) two months in a row. The CCM was deliberately designed by UK Government to be more responsive than that used in the EU ETS, and yet when it was triggered by high sustained carbon prices, the UK ETS Authority chose to take no action. Options included the release of industry share allocation not yet distributed. Members would therefore also welcome further transparency on the criteria considered in deciding whether to intervene following a triggering of the CCM and how the range of potential interventions will be assessed and implemented (or not as the case may be). In the meantime, the UK Government must use all its sovereign powers to narrow the gap between the UK ETS market and the EU ETS market until such time that the two are linked.

Yours sincerely,



Chair, UK Emissions Trading Group

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/889037/Government_Response_to_Consultation_on_Future_of_UK_Carbon_Pricing.pdf