

[ukets.consultationresponses@energysecurity.gov.uk](mailto:ukets.consultationresponses@energysecurity.gov.uk)

8 March 2024

By email

**UK Emissions Trading Scheme: free allocation review consultation**  
**UK Emissions Trading Scheme: future markets policy consultation**

Dear Consultation Teams,

The UK Emissions Trading Group's (ETG) members represent a high proportion of the UK businesses covered by the UK Emissions Trading Scheme (UK ETS) and, until 2020, the EU Emissions Trading System (EU ETS). The ETG provides a forum for discussion and resolution of all aspects of emissions trading and associated policy matters; and uniquely it provides a regular forum for communication to take place between commerce and industry, the UK Government, Devolved Authorities, and regulators.

The ETG has considered these consultations and has the following comments. Our member organisations will have more detailed points on the individual detailed questions in the consultation document.

**Free allocation review consultation**

**CBAM and free allocation interaction**

As there is no proposed transition period, free allocation should not be reduced or phased out until the CBAM has been shown to be watertight. Assuming that free allocation does then start to be phased out, in the event that future reviews highlight that the CBAM is not working, there should be a mechanism to quickly return free allocation to CBAM sectors.

Also, free allocation should be retained for exports, given the threat of UK exports being rendered uncompetitive if nothing is done. ETG would be happy to work with government on how this necessary aspect of the future carbon pricing regime could be applied.

**Carbon Leakage Indicator**

We strongly support the position that datasets should closely resemble the UK ETS sectors. Consideration should be given to using sector data where no other dataset exists or where horizontal datasets are inadequate or out of date. Sufficient time should be allowed for consultation on the proposed list and methodologies and there should be a review/ update if required.

**Conditionality**

We do not agree with any conditionality being attached to free allocation. This would imply a fundamental and unwelcome change in the objectives of the regime. The focus of free allocation element should remain on carbon leakage mitigation. Conditionality would also introduce a very considerable administrative burden which should be avoided.

## Dynamic allocation

Whilst support for full dynamic allocation varies, in the event that it were to be decided to introduce it rather than the current system, this would raise the potentially awkward issue that allocations would not be known within the timescale of normal financial planning. This issue would therefore need to be addressed. Achieving greater certainty regarding the level of free allocation should be a key objective of the scheme alongside maintaining carbon leakage protection.

## **Future markets policy consultation**

### Auction Reserve Price (ARP) and Cost Containment Mechanism (CCM)

The UK ETS should continue to be based on a presumption that carbon prices are essentially a function of the market. The perceived issues leading to consideration of ARP and CCM have been made more difficult as a result of low liquidity in the UK regime. We strongly recommend government reinvigorates the discussions to link the UK ETS with the EU ETS to introduce more liquidity. This would also help reduce the likely administrative burden arising from a future non-aligned UK CBAM.

If the CCM or ARP are, nevertheless, to continue or other measures introduced, there is a strong case for greater transparency as to the criteria to be adopted, and the extent to which these interventions are automatic or discretionary.

Yours sincerely,



**Will Webster, Chair UK ETG**