Will Webster

ETG Secretariat
Golden Cross House
8 Duncannon Street
London WC2N 4JF

Tel: 020 7484 5274

Email: john.craven@etg.uk.com
Web Site: www.etg.uk.com

ukets.consultationresponses@energysecurity.gov.uk

15 August 2024
By email

Dear Consultation Team,

Integrating greenhouse gas removals in the UK Emissions Trading Scheme: consultation

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 this consultation and has the following comments. Our member organisations will have more detailed points on the individual detailed questions in the consultation document.

1. **Principles for policy design – this section considers what principles the Authority should consider when making decisions concerning integration of GGRs into the UK ETS.**

Overall ETG agrees with the principles set out in the consultation document. GGRs will have an important role to play in the UK reaching its net zero target. In some cases industry will not have access to the required infrastructure to enable decarbonisation in the timeframe set out for net zero and may need GGRs to address residual emissions.

2. **Cap – this section considers what happens to the cap when GGRs are integrated into the UK ETS.**

There are pros and cons with the different Options identified. Option 1 will potentially allow GGRs to reduce overall cost of compliance in the short term but this is ultimately not consistent with a move to a net zero compliant cap and may impact prices in an illiquid market.

Option 2 allows for the design of the introduction of GGRs to be managed to mitigate the risk of increasing liquidity issues and unpredictable impacts on emission allowance prices. However it also implies a move away from a cap and trade scheme focused on capping the quantity of emissions to the atmosphere, towards one that is interested in increasing the price of emissions through the control of negative emissions supply.

/However, both options 1 and 2

However, both options 1 and 2 are not as aligned with a “net” zero target and therefore Option 3 could be better aligned to a long-term, managed transition from a gross cap on emissions to a market which must find a balance between emissions and removals. It is clear that in the longer term the gross cap will need to be adjusted to become a net cap and therefore include GGRs so that they can continue to offset residual emissions as the UK ETS cap approaches zero.

3. **Allowance design – this section considers how allowances should be awarded to GGR operators, the extent to which they differ from existing emissions allowances and how allowances should enter the UK ETS market alongside other related issues.**

The introduction of GGRs must not destabilise the UK ETS. The removals must be based on a robust MRV methodology that is as accurate as that applied to UK ETS emissions. The allowances must be awarded ex-post to ensure only actual removals are awarded.

GGR units must have equivalent value with respect to compliance. Any distinction would introduce the potential for multiple markets which could reduce liquidity and lead to unpredictable effects on prices. Ideally all types of GGRs technologies and emission reduction technologies should compete as a single market.

Government should clarify the interface between the use of allowances for compliance and any funding of GGRs such that companies can claim these in more voluntary settings e.g. emissions reporting against corporate sustainability targets.

Ideally, the system would also allow a method of accounting for emissions and removals that take place on the same site rather than having two separate processes for buying to comply for emissions and receiving allowances for removals. There will likely need to be detailed sector specific rules on these issues – e.g. energy from waste with CCUS.

In terms of who sells the allowances, in a well-functioning market, the GGR developer should be awarded the UKA which it would be free to sell on the secondary market. However, the proposal to award allowances to GGRs from the auction share under the current cap, means that if the GGRs choose to hold onto those allowances, the UK ETS could encounter liquidity issues. Therefore initially the UK ETS Authority may need to auction the allowances as normal and then provide the GGR with the proceeds from the auction.

The question of UK participation in international allowances is a topic that requires wider consideration. GGRs could be a good vehicle for developing a framework for the UK to participate in Article 6 exchanges to contribute to its NDCs and provide finance to other countries to reduce emissions. However there may need to be an initial period where GGRs have to be located in the UK. This will help with establishing reliable monitoring and reporting frameworks for these nascent technologies.

4. **Permanence – this section considers how carbon storage could be valued under the UK ETS, considering the duration of storage provided by different GGRs and the associated risks of that carbon being re-released into the atmosphere.**

This is a complex area where policy needs to be developed carefully. Whatever approach is taken must be regularly reviewed to include more technologies as confidence in the market and the permanence of removal grows.

5. Pathways to integration – this section considers the degree to which GGRs should be integrated into the UK ETS, and when integration should take place.

Ideally supply and demand controls should be avoided and the market left to function without interference. A more rapid process of integration would ensure more coordination across different areas of policy development and greater clarity and investor confidence given the long timelines required to develop detailed rules and procedures. In any case, the phasing in of GGRs should be aligned with any future timetable for phasing out of free allowances.

Given the complexity of the GGR value chain and interlinkages with other policies such as CCUS Business Models, cluster sequencing, and the wider UK ETS framework, it is crucial that relevant HMG departments work together to ensure alignment and effectiveness of proposed measures across all policies.

Yours sincerely,

Will Webster, Chair UK ETG