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By email

Response from the UK Emissions Trading Group to consultation on Extending the UK ETS cap beyond 2030

Dear Consultation Team,

The UK Emissions Trading Group's (ETG) members represent a significant proportion of 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 platform for discussing and resolving issues related to emissions trading and associated policies, facilitating regular communication between industry, the UK Government, Devolved Authorities, and regulators.

The ETG has considered this consultation with the aid of input from members at a meeting on 20 March 2025 and has the following comments.

Overview

ETG is overall supportive of emission trading as the primary policy tool to price carbon emissions. Indeed, we and our members were instrumental in establishing the original scheme in the UK and subsequent evolutions as well as strongly influencing the design of the EU ETS. However, we are concerned that, particularly for our industrial members, a policy of ever escalating prices and reductions in allowances cannot deliver on the government's overall objectives around global climate change or economic growth. The ETS scheme cannot exist in isolation from other positive measures to promote decarbonisation.

In many industrial sectors, site closures and increasing imports are evidence that current policy is, to some extent, leading to deindustrialisation as opposed to the objective of decarbonisation.

There is therefore a need for a holistic/joined-up approach from government to ensure that UK businesses can remain internationally competitive. This requires effective measures to tackle carbon leakage, such as continued free allocation and a well-functioning UK CBAM, expanded support for industry to decarbonise and wider support for decarbonisation across the economy.

/We understand

We understand that the current consultation will be followed by a second one informed by stage two of a DESNZ monitoring and evaluation exercise. The ETG view is that this second consultation will need to take full account of and examine the following:

- broader government industrial policy - as set out in the Industrial Strategy Green Paper, the government seeks growth and a thriving industrial base,

- the scope for complementary policies which would not add to costs, such as tax breaks and support for development of technologies such as electrification, CCUS and switching to hydrogen which require significant additional infrastructure,

- identifying industries/installations which could be helped to decarbonise using funds gained from the sale of UKAs by government. With the cessation of the IETF, ETS funds could be used to plug the gap,

- working towards decisions on greenhouse gas removals and recognising high quality international credits (UNFCCC Article 6). The latter would demonstrate that climate change is a global issue,

- the position on discussion of linking with the EU ETS and the extent to which UK specific features that have emerged would continue in the case of linking.

<u>Length of extension</u>

Subject to the above, the key objective of the extension would be to provide longer term certainty for industry to encourage investment in decarbonisation.

Opinions vary but of the three suggested - 7, 10 and 12 years - the latter two would best provide that certainty. A 10 -year phase seems to strike a good balance to that end, although whichever of those were chosen, a mid-term review would be required given the pace of change. Such a review should be designed in a way that did not upset certainty, e.g. it should assess certain criteria including whether CCUS and hydrogen targets had been met and propose changes to support industry dependent on these technologies.

A 10-year phase from 2030-2040 would be consistent with Phase I in addition to Phase 4 of the EU ETS. As above, account will also need to be taken of any future move to linking with the EU ETS, accepting that there is currently no information about the length of any proposed EU ETS Phase 5.

<u>Banking of allowances from Phase I to Phase II</u>

Banking of allowances from Phase I to Phase II is important and would need to be allowed to give assurance to those industries who have a long-term strategy and made strategic investments in EUAs. We saw the impact when EUAs could not be carried forward to the UK ETS and the price volatility that resulted. Not allowing banking would also undermine large/ long term investments. Banking helps to stabilise allowance prices by allowing companies to hold onto allowances when prices are low and use them when prices are high. This reduces price volatility and provides a more predictable market environment. It also helps balance the supply and demand for allowances over time, preventing market imbalances that could lead to extreme price fluctuations.

/It is also important

It is also important to note that banking of allowances does not compromise the environmental integrity of the UK ETS, as the total cap on emissions remains unchanged. It simply allows for more flexible compliance within the set cap. Overall, banking of allowances enhances the efficiency, stability, and effectiveness of the UK ETS, making it a more robust tool for achieving domestic climate targets.

Yours sincerely,

Will Webster, Chair UK ETG