



Department for
Business, Energy
& Industrial Strategy



Llywodraeth Cymru
Welsh Government

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Rt Hon. Lord Deben

Chairman of Committee on Climate Change
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2nd May 2019

Dear Lord Deben,

The UK Government and the Devolved Administrations are writing to request, pursuant to s48(1) and s48(2) of the Climate Change Act 2008 (CCA), advice from the Committee on Climate Change (CCC) on establishing a UK-wide emissions trading system (UK ETS). In the absence of a Minister senior Northern Ireland officials have indicated their support for the advice being sought.

We are requesting advice on a UK ETS applying to the power, industry and aviation sectors in two scenarios: a standalone UK ETS and a UK ETS linked to the EU ETS, noting that a linking agreement would be subject to negotiation. Advice could also inform the development of other fall-back options including a tax policy should the government decide to take forward this option.

We would like your advice in relation to the proposals outlined in our public consultation document on future Carbon Pricing options. The consultation covers the following:

- The design elements of the UK ETS, including: market stability proposals; distribution of allowances between auctioning and free allocation; a free allocation methodology to mitigate the risk of carbon leakage (including the proposed approach to benchmarks); scope; small emitter opt-out and ultra-small emitter exemption; the proposed phases and review periods; the possibility of monetising the allowances from within the UK ETS to fund UK industrial decarbonisation. For example, to support innovation such as the exploration of low carbon hydrogen and Carbon Capture Utilisation and Storage technologies.
- The operation of the UK ETS, i.e. MRV, auctioning and market rules, banking and borrowing, governance, practical arrangements and the registry.

Your advice should cover both the effectiveness in reducing carbon emissions and the impact on stakeholders of the options considered, and be disaggregated to the level of individual nations where possible. Your assessment of the potential differential impacts across sectors would also be valuable if this is possible. To assist with this analysis we are able to provide

you with series data on emissions from our UK installations which indicate their sector, geographical location and level of free allocation.

In particular, we seek your advice on setting the level of the cap and trajectory for the 2021 to 2030 period. Furthermore, we seek your advice on what impact proposed caps could have on a transition from the EU ETS, i.e. rate of decarbonisation, transitional issues for operators, carbon prices; and competitiveness, i.e. the risk of carbon leakage.

Pursuant to section 41(3)(b) of the CCA, we request that your advice takes into account the following principles that a UK ETS must:

- be an operational system which facilitates cost effective decarbonisation through trading of allowances;
- be deliverable for operation from 1 January 2021;
- meet the UK Government's commitment in the Clean Growth Strategy: *"We will seek to ensure our future approach is at least as ambitious as the current scheme and provides a smooth transition for the relevant sectors."* p.44, CGS);
- maintain industrial competitiveness whilst supporting delivery of the UK's and DA's domestic and international climate change commitments and targets - noting that UK, Scottish and Welsh Ministers have also recently jointly sought the CCC's advice on long term emissions reduction targets in light of the Paris Agreement and recent IPCC Special Report;
- meet the UK's commitment to the robust implementation of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA); and
- be capable of being linked to the EU scheme, so that UK and EU tradable allowances are fully fungible, noting that securing a linking agreement is the UK's preferred outcome.

It should also be noted that at a future date we may request your advice on the following:

- in the longer term, future changes to the UK ETS scope. For example, flexibility and capability of responding to changes in the EU market;
- linking the UK ETS with other markets under the provisions of Article 6 of the Paris Agreement.

Please provide your advice to the Ministers of the UK and the Devolved Administrations by 30 July 2019 at the latest. We are, as ever, grateful for the work that the Committee does, and look forward to receiving your advice.

Yours sincerely,



**ROSEANNA CUNNINGHAM,
MSP**

*Cabinet Secretary for
Environment, Climate Change
and Land Reform*

Scottish Government



RT HON CLAIRE PERRY MP

*Minister of State for Energy &
Clean Growth*

UK Government



LESLEY GRIFFITHS, AC/AM

*Minister for Environment,
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