



Department for
Business, Energy
& Industrial Strategy

UK ETS Free Allocation Review

Call for Evidence

Closing date: 23 April 2021



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General information

Why we are calling for evidence

Within the context of the UK Government and Devolved Administration's climate targets, we are calling for evidence now on how our use of free allocations can better incentivise emissions reduction, and protect energy intensive, trade exposed industries from the risk of carbon leakage.

Call for Evidence details

Issued: 19 March 2021

Respond by: 23 April 2021

Enquiries to:

Emissions Trading Scheme Team

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1 Victoria Street

London, SW1H 0ET

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Document reference: Free Allocation Review Call for Evidence

Audiences:

We welcome views and information from a wide range of stakeholders with an interest in free allocation policy including industry, academia and think tanks.

Territorial extent:

This call for evidence seeks information for consideration by the UK government and Devolved Administrations but does not contain policy proposals. The UK government will work with the devolved administrations to ensure that the development of future policy takes account of devolved responsibilities and policies across the UK.

How to respond

Your response will be most useful if it is framed in direct response to the questions posed, and with evidence in support wherever possible. Further comments and wider evidence are also welcome. When responding, please state whether you are responding as an individual or representing the views of an organisation.

Email to: emissions.trading@beis.gov.uk

We advise that you do not send responses by post to the department at this time, as we may not be able to access them.

Confidentiality and data protection

Information you provide in response to this call for evidence, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This call for evidence has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this call for evidence has been conducted, please email: beis.bru@beis.gov.uk.

Context

The UK ETS launched on 1 January 2021, making the transition from the EU ETS to a standalone UK market. Alongside ensuring continuity for participants, we are taking the opportunity to develop a scheme with greater ambition; for example, by reducing the cap on emissions allowances by 5% from the UK's expected share of the EU ETS cap. We will also be consulting on setting a net zero consistent cap trajectory later in 2021.

We are also ensuring that this new cap and trade market works for UK business. We are continuing to offer free allowances to prevent carbon leakage and to protect UK competitiveness.

A 2021 Review of the UK ETS

Whilst the UK ETS on day one emphasises continuity, we also know that the scheme will need to evolve and grow if it is to make the most of new opportunities. There are a number of areas where we will look, in partnership with market users, to develop the UK ETS in the coming years. In responding to the consultation, 'The future of UK carbon pricing', the Governments of the UK pointed to some of these areas, such as setting a net zero consistent emissions cap; reviewing the long-term role of free allowances; and considering the case for a supply adjustment mechanism, in the Energy White Paper published by BEIS in December we also committed to bringing more sectors of the economy within the scope of the scheme and exploring linking with other schemes internationally.

We will begin this process in 2021 with a public review process and will say more in due course about how we will take this forward. A focus of this review will be considering systematically the place of free allowances in the UK ETS as we drive towards net zero 2050.

The UK Government and Devolved Administrations are mindful of the need to mitigate carbon leakage risks. The HMT Net Zero Review final report will consider a broad range of potential options for approaching carbon leakage, and HMG continues to engage on this issue.

Reviewing the UK ETS free allowance regime

Aim and Scope

As we, as a nation, lead the world in climate ambition, the government recognises the importance both of protecting the competitiveness of UK industries and addressing risks of carbon 'leakage'. Alongside this, this Review will focus on best use and evolution of the Free Allowance regime within the UK ETS, specifically in the context of the setting of a net zero consistent emissions cap.

In this context, we would expect to consider:

- How free allocations can be distributed more fairly or better targeted in line with a reduction to the overall cap,
- The methodology for determining preliminary and final free allocation (including consideration of benchmarks, how carbon leakage risk is assessed, and how we treat new entrants/scheme participants),
- New Entrants Reserve (NER) rules on thresholds and treatment of new entrants and existing installations, and
- How appropriate free allocation is as a policy in the UK ETS to mitigate against carbon leakage in the long-term.

Call for Evidence

At this stage, within the context of the UK Government and Devolved Administration's ambitious climate targets, we are calling for evidence now on how our use of free allocations can better incentivise emissions reduction, and protect energy intensive, trade exposed industries from the risk of carbon leakage.

We are seeking input from the full range of interested parties on:

- 1. Key questions the Review should consider, and the problems we should be looking at.**
- 2. How we can make Free Allocations fairer and more targeted when reducing in line with the reduction in the overall cap.**
- 3. Examples and evidence of carbon leakage to help inform future free allocation policy.**
- 4. Relevant sources of evidence and expertise that should inform the Review.**
- 5. We would particularly appreciate all substantive, quantitative evidence that can be provided to help develop the best possible evidence base.**
- 6. Significant lessons it is important to learn, from the UK and internationally.**

Responses should focus on:

- The advantages and disadvantages of the current approach to free allocation, as the mechanism to support decarbonisation whilst providing protection against carbon leakage in a technologically neutral way.
- Where there remains a problem that is not addressed by either the free allowance framework or other government policies.
- Potential solutions, whether sector specific or cross cutting.

Knowing about this will help us to frame the Review more effectively, and to develop better targeted proposals for consultation later in 2021.

Next steps

This call for evidence will close on 23 April 2021. We expect to consult formally during 2021, but this is only one aspect of the dialogue we wish to have.

We will be engaging with a wide range of stakeholders, including industry and experts, to draw on evidence and insights from all those for whom the Scheme is relevant. We welcome contributions from participants to inform the review's thinking.

We are committed to ongoing dialogue with stakeholders as we review responses to this call for evidence and develop our policy thinking in this area. We will publish a response and set out our next steps in due course.

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