



Department for
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& Industrial Strategy



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Department of
**Agriculture, Environment
and Rural Affairs**
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Rt Hon Lord Deben
Chairman, Committee on Climate Change
151 Buckingham Palace Road
London
SW1W 9SZ

1 June 2020

Dear Lord Deben,

Thank you for your letter of 20 March, advising on a UK Emissions Trading System (UK ETS) that is not linked to the EU ETS (i.e. a standalone system).

We share your view that there is a need to ensure the UK ETS cap is in line with a trajectory consistent with the UK's net zero targets and ambitions. We look forward to receiving your full and considered advice on the next Carbon Budgets, which will enable us to review our current approach and work towards meeting our commitments as quickly as possible through a suite of decarbonisation measures, including the cap.

However, it is the joint governments' view that for the launch of the UK ETS, it is important to put in place a policy which provides a pragmatic and feasible approach to meeting net zero through the ETS. Our approach, as set out below, provides the necessary flexibility to raise ambition in the near future and supports the traded sector to decarbonise, while appropriately mitigating the risks of carbon leakage.

Ensuring we have a fully functioning UK market from January 2021, which gives industry certainty and continues to deliver significant emission reductions in line with current carbon budgets, is key. This task is further complicated by an unprecedented pandemic and associated economic emergencies, whose full, long term impact on traded emissions cannot be assessed at present, making it difficult to accurately adjust the cap or set an auction reserve price (ARP) in advance.

As such, we are proposing a two-stage approach. The first stage is intended to be **purely temporary** in nature. We will continue to demonstrate clear climate ambition by cutting the cap by 5% compared to the notional cap the UK would have had if we remained in the EU ETS. Our analysis suggests that this starting point cap, combined with a transitional ARP of £15 and temporary market stability mechanisms, would also minimise the risks associated with transition from the EU ETS. This provides a balance between a tightening of the cap on emissions and stability and competitiveness for business.

Our administrations are strongly committed to ensuring UK emissions reduction is consistent with our different net zero commitments, including the different pace of our interim targets. Once we have your published advice on the Sixth Carbon Budget, we will consider this again immediately. Our response therefore commits us to a second stage during which we will swiftly consult on an appropriate net zero consistent trajectory for the cap for Phase I of the UK ETS within nine months of your advice being published. We will commit to implementing any changes by January 2023 if possible, and certainly no later than January 2024.

Reducing carbon emissions and enhancing the environment are major priorities for the UK Government and Devolved Administrations and we intend to continue to lead the global climate effort within the framework of the Paris Agreement, including through the development of global carbon markets. All administrations demonstrate global leadership in tackling climate change: the UK Government as president of COP26 climate negotiations and the Welsh and Scottish Governments through states and regions initiatives, such as the Under2Coalition.

We also recognise the points you raise about the future scope of a UK ETS, and in response we will consider the option of expanding the scope to the most appropriate additional sectors in the first UK ETS review, to enable implementation of any potential changes to scope by no later than 2026.

Finally, we note your advice that a UK ETS should link to the EU ETS as soon as is practicable. The UK Government reaffirms that we remain open to linking and are developing a UK ETS that is capable of linking from 1 January 2021. However, this is dependent on the outcome of negotiations with the EU.

The full detail of our policy intention for the UK ETS is set out in the joint governments response to the Consultation on Future of UK Carbon Pricing. We hope the above adequately illustrates the rationale for our policy position as demonstrating clear environmental ambition and commitment while maintaining protections for businesses' competitiveness in a hugely uncertain economic context. We will publish this response to your advice alongside the joint government response to the Consultation on the Future of UK Carbon Pricing.

Yours sincerely,



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