

ERCST's response to the Department for Business, Energy & Industrial Strategy's open consultation for Developing the UK Emissions Trading Scheme (UK ETS)

The European Roundtable on Climate Change and Sustainable Transition (ERCST) welcomes the opportunity to provide feedback on the UK Government open consultation on **Developing the UK Emissions Trading Scheme (UK ETS)**.

About ERCST

ERCST is an independent non-profit association based in Brussels (Belgium). It aims to provide a neutral space where policymakers and regulators can meet stakeholders to discuss climate change policy and how to manage the transition to a low GHG-economy in a sustainable way. ERCST represents its own views and strives to strictly ensure its independence and integrity.

ERCST has also worked extensively on the design features of the EU ETS, including on the recent review and ongoing implementation process. ERCST has successfully completed projects and written reports on a variety of ETS-related topics, including on carbon leakage, ongoing legislative processes, the market stability reserve, use of auctioning revenues, the State of the EU ETS Report, etc.

About the UK Emissions Trading Scheme (UK ETS) consultation

In its feedback on the [UK ETS open consultation](#), ERCST puts forward 6 issues that are important to be assessed and addressed in the upcoming UK ETS review:

1. Enable linkage **between the UK and the EU ETS** as soon as possible for these reasons:
 - As a way to mitigate **policy divergence** between both UK and EU ETS due to the separate evolution of both legislative files.
 - Enhancing overall **market liquidity** in an environment of rapidly declining caps will be helped by linking.
 - Recognising the **benefits of linking both schemes**, not only in terms of the bilateral benefits of a joint carbon market to reduce GHG emissions, but also by contributing to the worldwide expansion of carbon markets as one of the most efficient policies to reduce GHG emissions.
 - Linking is feasible, following the example **of other non-EU countries** (such as Switzerland and EFTAs) while not being members of the EU, still contribute and participate under the same conditions of other participants in the EU ETS.

- UK industries have expressed **concerns over competitiveness issues** regarding the EU, and have called for linking with the EU ETS¹. Although the post-Brexit trade deal gives serious consideration to linking carbon markets, there is no sign of negotiations to date.
 - While announcements such as the EU Carbon Border Mechanism (CBAM) may have contributed to generate credibility (or pressure) to achieve ambitious climate goals, **international ETS linking, as a market instrument**, should still be further pursued by international climate negotiators and UK authorities.
2. **Further progressing the development of the Article 6 mechanisms.** The Rulebook on Article 6 of the Paris Agreement was agreed at the COP26, which took place in Glasgow from 31st October to 12th November 2021. The UK - particularly as the current COP Chair - needs to elaborate practical implementation of the Article 6 Instruments and how they link into domestic schemes such as UK ETS.
 3. **More auction revenues spent on industrial transformation.** Simply inserting a high price of carbon without financial resources for investment will not enable industrial transformation within the 2050 Net Zero Timescale.
 4. **Keeping the current benchmark values under EU Law.** We see with concern BEIS's proposal to anchor the current benchmarks in UK regulation, meaning they will not automatically be updated based on EU benchmarks. On the contrary, the approach should be to facilitate discussions with EU authorities and involve British installations in the benchmark calculations determining the level of free allocation.
 5. **Withdrawing from the ARP (Auction Reserve Price).** The UK ETS auction regulation sets the ARP as the minimum price for bids in UK ETS auctions at 22 £. We believe setting a minimum price of carbon emissions can become a barrier to the correct functioning of the carbon market.
 6. **Sharing experience on the UK Cost Containment Mechanism as a good mechanism to avoid excessive price fluctuations.** The revision of the UK ETS and EU ETS should not take place in isolation. UK authorities should be able to share their expertise in those tools which have been shown to improve the functioning of the carbon market. The UK system to announce trigger prices and anticipate market reactions can be used as an example to be adopted by other ETS schemes.

In light of these points, ERCST, as a leading think tank, will be interested and willing to help the dialogue between EU and UK authorities in order to ensure that the compromises and benefits of a linked system, as it was in the past, are fully and expediently achieved.

¹ Letter addressed to The Rt Hon Boris Johnson MP about the Importance of linking the UK ETS with The EU ETS ahead of COP 26, on behalf of 40 leading industry bodies. 14 April 2021.