



Consultation Response to “UK Emissions Trading Scheme: Future Markets Policy”

March 2024

Summary

T&E UK agrees with the authority’s assessment that the auction reserve price (ARP) should be retained. Furthermore, the ARP should be increased annually. This provides increased certainty to investors and institutions about future costs of burning fossil fuels. Additionally, an increasing ARP provides more certainty to current Government plans and strategies that are reliant on an increased future carbon price. In calculating the future carbon price, the current published DESNZ carbon values should be used as a starting point.

Overview

This submission summarises Transport and Environment (T&E’s) views in response to the questions posed in the [UK ETS: Future Markets Policy Consultation](#). T&E is Europe’s foremost sustainable transport think tank and environmental group. Additionally, it also acts as the secretariat for a federation of almost 60 national organisations across the UK and Europe campaigning for greener transport. Its work has informed and influenced key national and European Union policies and we regularly brief UK Government Ministers and ministries, other officials and other key stakeholders on the steps needed to decarbonise transport. It has had a UK office since 2019.

T&E coordinates the International Coalition for Sustainable Aviation, which has observer status at the International Civil Aviation Organisation (ICAO); and is also an active member of the Jet Zero Council’s SAF Delivery and commercialisation groups. T&E is also a founding member of the Clean Shipping Coalition, which has observer status at the International Maritime Organisation (IMO). It is also an active member of the European Sustainable Shipping Forum, which acts as an expert group advising the EU Commission on technical maritime issues.

Market Stability Risks

This consultation focuses on ways to provide market stability and recognises that both supply and demand side shocks can occur, without giving examples of what those shocks could be. One major potential future shock will come as and when other markets enter the UK ETS. In aviation, that

means when all departing flights, no matter the destination, are included (as is intended in the EU ETS, depending on the results of an evaluation in 2026), and all climate effects from burning fuel in those planes (including non-CO2 impacts) are included. In shipping, that means when all UK shipping emissions are included in the ETS: from both UK domestic and international vessels, irrespective of gross tonnage (GT). The UK ETS presently excludes around 70% of UK aviation's emissions (based on departing flights), and 90% of UK shipping emissions (as set out in [T&E's 2023 analysis](#)).

The Government has already pledged to include international aviation and shipping in its legally binding carbon budgets from 2033, so it does not make sense for the ETS Authority to consult on the future of the scheme without explicitly considering the effect of these two hugely emitting sectors joining shortly. The UK ETS is the Government's flagship decarbonisation tool, but continuing to exclude these two areas makes a mockery of the current scheme, and undermines the UK's obligations under the Paris Agreement to reduce emissions from all parts of our economy. The Authority must plan for the inclusion of 100% of UK shipping and aviation emissions in the scheme. This will have significant implications for the stability and liquidity of the UK ETS and must be planned for, and clearly signalled, well in advance.

Auction Reserve Price

T&E believes that the auction reserve price (ARP) should be not only retained, but should also rise every year. There are several reasons for this:

- An ARP is simple and easy to understand.
- Despite the auction price not reaching the ARP level so far under the UK ETS, there is no guarantee that that would never happen: the early years of the EU ETS proved that low carbon prices could occur.
- Rising carbon prices are baked into various Government plans and frameworks. For example, the UK's aviation decarbonisation strategy ([Jet Zero Strategy](#)) is based on the presumption of an ETS price of £150 per tonne in 2030, and £378 per tonne in 2050 (2020 prices). The £378 figure correlates with the Department for Energy Security and Net Zero's 2050 [carbon value used for policy appraisal and evaluation](#). An increasing ARP simply provides more certainty that the actual future carbon prices are more closely correlated with today's plans and roadmaps.
 - As an aside, using the carbon values would be a good starting point in any discussion around the specific levels to set future increased ARP prices at.
- The UK Government has often claimed that the UK is a "climate leader". A rising ARP sends a clear signal to the market that emitting carbon in the UK will become increasingly more

expensive, which further sends a clear signal to international investors and capital about the type of projects and industries that the UK wants in this country.

- As well as sending a signal about the types of investment needed, an ARP also reduces or eliminates the risk that future carbon prices will be low, and therefore provides more certainty to investors that investments would be profitable.
- An ARP ensures that the UK ETS itself is not undermined by persistently low prices (as happened with the EU ETS)
- Globally, several trading schemes in place use a price floor, and all of the [North American schemes that use them also include indexation of the price](#) (rising by inflation plus 5% annually). The use of an increasing ARP is a tried and tested mechanism that is becoming more prevalent. Even in the EU ETS, there are signs that an ARP could be eventually implemented. Both The Netherlands and Norway have implemented mechanisms to ensure that minimum prices will be reached by 2030 (€125/t and €200/t respectively). This will take the form of a top-up tax, similar in mechanism to the carbon price floor.

Further information

Name: Matt Finch

Title: UK Policy Manager

Email: matt.finch@transportenvironment.org

Mobile: +44(0)7881 812 398