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Gweinidog yr Amgylchedd, Ynni a Materion Gwledig
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Llywodraeth Cymru
Welsh Government

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Mike Hedges MS
Chair
Climate Change, Energy and Rural Affairs Committee

15 July 2020

Dear Mike

In my Written Statement of 1 June, I committed to update Senedd committees on the progress made on the future of carbon pricing in the UK after EU Exit and the joint policy position negotiated between the Governments of the four UK nations. I will explain the process of policy development, provide an overview of the policy design including the underpinning legislation and governance structures and finally suggest how my officials and I might assist Senedd committees in their scrutiny of this policy.

Environmental protection, including emissions reduction and climate change, are devolved matters. As a result of the UK's withdrawal from the European Union, it was necessary to ensure we continue to incentivise industrial decarbonisation. I have been working with my counterparts across the UK to develop a Common Framework to replace the EU Emissions Trading System (EU ETS). The European Union (Withdrawal) Act 2018 and the European Union (Withdrawal Agreement) Act 2020 do not provide sufficient powers to establish a new legislative regime. Therefore, the four Governments decided to jointly establish a UK Emissions Trading Scheme (UK ETS) using existing powers under Part 3 of the Climate Change Act 2008.

A joint public consultation exercise in 2019 sought views on proposals for a UK ETS to apply after the transition period, with the first ten year phase commencing on 1 January 2021. It would closely mirror the design of the EU ETS, to provide a smooth transition for businesses and facilitate a link to the EU ETS as soon as agreement was reached in the UK-EU negotiations. The stakeholder response to the consultation was supportive of a UK ETS, in particular one linked to the EU ETS. The UK Committee on Climate Change was also supportive of establishing a linked trading scheme.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Since the consultation, the four Governments have continued to develop the technical aspects of the UK ETS policy design, which is described in the joint Government Response issued on 1 June. The policy design balances the challenges of ensuring environmental integrity while managing business competitiveness issues. This is critically important in Wales, as the traded sector accounts for around 46% of our emissions and includes some of our largest employers. The document can be accessed here:

<https://gov.wales/future-uk-carbon-pricing>.

The UK ETS will be closely aligned to the EU ETS in the first instance. It applies to the same traded sectors and has the same obligations on participants to monitor and report emissions and surrender an equivalent number of allowances. The scheme provides for free allocation which follows EU method and eligibility criteria, and a continuation of a regulatory compliance and enforcement role for Natural Resources Wales.

There are, however, some differences between the UK ETS and the EU system. The initial UK ETS cap will be set at 5% less than the UK's notional share of the EU ETS cap, and will be reviewed following receipt of further advice on the pathway to 2050, to ensure alignment with our shared goal of net zero emissions across the UK by 2050. There will also be mechanisms to manage extremely high and low prices, including an auction reserve price (ARP) set at £15 per allowance.

The Greenhouse Gas Emissions Trading Scheme Order 2020, which establishes the UK ETS and contains provisions for key elements of the policy, is being laid before the Senedd today and will be scrutinised by each of the four legislatures within the same timescale. The Order must be approved by the Senedd, and a debate will be scheduled for the first week of November. A further Order using the negative procedure, which addresses some of the technical detail of the scheme, will be brought forward towards the end of 2020.

The Senedd recently gave its consent to powers enabling the auctioning of emissions allowances contained in the UK Government's Finance Bill¹. The UK Government will be bringing secondary legislation forward in due course, to establish the detailed arrangements for auctioning.

The UK ETS is part of the Common Framework Programme overseen by the Joint Ministerial Committee on EU Negotiations (JMC(EN)) and has been developed using principles it set out in October 2017. A Framework Outline Agreement will set out the rationale for establishing the framework, the decision-making and governance arrangements. This will be accompanied by a concordat between the Ministers from all four governments. I will share these documents with the Committee for scrutiny as they are finalised and before they are presented to the JMC(EN).

I am keen to support the scrutiny of the legislation and wider framework, and I will be happy to give evidence. My officials are also available to provide a technical overview of the framework and details of the legislation if that would be helpful.

I am aware a number of other committees will have an interest in this framework. Consequently, I suggest my officials liaise with you to make arrangements for an efficient scrutiny process.

¹ When the Bill was introduced into the House of Commons on 18 March 2020, the relevant provision was clause 93 (Charge for allocating allowances under emissions reduction trading scheme). The Bill was amended by the Public Bill Committee, and clause 93 became clause 94. The Bill was introduced into the House of Lords on 2 July 2020, and clause 94 became clause 96. Although the numbering of the clause has changed, no amendments have been made to its substance since introduction. A record of the Bill can be found here: <https://services.parliament.uk/Bills/2019-21/finance/documents.html>.

The UK ETS is a technically complex policy, but it has important ramifications to our climate policy and our industrial base. I look forward to engaging with you during the scrutiny of the UK ETS.

I am copying this letter to the Chairs of the Economy, Infrastructure and Skills Committee, External Affairs and Additional Legislation Committee, Legislation, Justice and Constitution Committee and Business Committee.

Regards

A handwritten signature in black ink, reading 'Lesley Griffiths'. The signature is written in a cursive, flowing style with a large 'L' and 'G'.

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