

Huw Irranca-Davies AS/MS
Y Dirprwy Brif Weinidog ac Ysgrifennydd y Cabinet dros New
Hinsawdd a Materion Gwledig
Deputy First Minister and Cabinet Secretary for Climate
Change & Rural Affairs



Llywodraeth Cymru
Welsh Government

Our ref: PO/HIDCC/0039/25

Mike Hedges MS
Chair
Legislation, Justice and Constitution Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

10 February 2025

Dear Mike,

I am writing to you to correct my letter of 7 February, where I outlined changes to the UK Emissions Trading Scheme.

On 30 January 2025, the UK Emissions Trading Scheme (UK ETS) Authority (comprising of the Welsh Government, the UK Government, the Scottish Government, and the Northern Ireland Executive), published a Response to the [UK ETS Authority Technical consultation September 2024](#) (*Hereinafter: Technical and Operational*). Additionally, on 12 February 2025, not 5 February as previously indicated, “*The Greenhouse Gas Emissions Trading Scheme (Amendment) (No. 2) Order 2025*” (*hereinafter: the Order*) will be presented to the Senedd, which will allow for these changes. The Order also implements the changes confirmed in the Authority Response to the [Moving the UK ETS Second Free Allocation Period Consultation](#), published in December 2024.

In September 2024, the ETS Authority published the targeted Technical and Operational consultation that proposed three technical amendments to the scheme. The amendments suggested encompassed various suggested changes, including updating requirements for publication of UK ETS Registry Data as well as improving sharing of UK ETS data between government departments and the CCC possible for the purposes of policy development. In addition, an amendment was suggested for the ultra-small emitters (USE) scheme to allow operators who began operations between 2 January 2021 and 1 January 2024 to apply for USE status for the 2026-2030 period.

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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.

Stakeholder responses were mostly in favour, with some disagreement towards specific aspects due to concerns over commercial data sensitivity. The Response recognises these concerns and amends the changes in line with them. It will also be ensured that a high bar will be in place for any data sharing before UK ETS data is used in policy development. These proposals pose positive changes to the scheme, as they will overall contribute to improved policy development across Government and will reduce administrative burden on (those which are likely to be) small businesses. The Response therefore confirms the Authority's intention to move forward with the changes.

The Order also implements changes relating to allocation periods for free allocations of allowances in the scheme. As I notified you in December 2024, the UK ETS Authority has confirmed the intention to delay making changes to free allocation policy from the initial target year of 2026, to 2027. Free allocations are UK ETS allowances that are provided for free to industries who face competition globally from competitors based in countries with weaker climate change mitigation policy (carbon leakage). Free allocations are currently the primary policy lever in mitigating carbon leakage, and the changes are being made to make allocations better targeted within the UK context.

The delay to making the changes was recommended as it would provide additional time for careful consideration of stakeholder views and policy development in what is a complex and challenging area, as well as align any changes with the UK Government's plans to introduce a UK Carbon Border Adjustment Mechanism (CBAM) in 2027. The amendment Order presented today will allow for this delay in the legislation.

Through the UK ETS, we must encourage decarbonisation in a way that does not risk disadvantaging Welsh industry and supports their decarbonisation pathways to a net zero world. This publication and amendment Order represent a crucial next step in improving policy making through better data sharing and a more considered approach to free allocations within the UK ETS.

I am also copying this letter to the Chair of the Climate Change, Environment and Infrastructure Committee.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Huw Irranca-Davies', with a stylized, flowing script.

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