

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

Ein cyf/Our ref: PO/HIDCC/0040/25

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

12 February 2025

Dear Mike,

I am writing to inform you the UK Emissions Trading Scheme (UK ETS) Authority (comprising of the Welsh Government, the UK Government, the Scottish Government, and the Northern Ireland Executive), has today published a consultation on extending the UK ETS beyond 2030.

The “*Consultation to extend the UK ETS beyond 2030*” proposes to extend the UK ETS into a second phase from 1st January 2031. A phase is a period of time defined in the legislation, over which the cap on emissions is set and the overall framework of the Scheme stays broadly the same. Currently, the Scheme is legislated for Phase I, which runs from 1 January 2021 to 31 December 2030 and without further action, the scheme will come to an end on 31 December 2030. Therefore, to ensure that the UK ETS continues to operate after 2030, a post-2030 Phase II would need to be established in legislation.

The consultation also seeks views on the proposed length of a second phase. When considering phase length options, it is important to balance providing participants with clarity on the ETS emissions cap whilst ensuring reliable emissions trajectories for cap setting. The current phase – Phase I - spans 10 years, and the consultation considers if a shorter or longer phase may be preferable. Moreover, it asks whether to allow banking of emissions allowances between Phase I and Phase II. Banking refers to the practice of retaining allowances purchased during one phase of the UK ETS to be used or traded in a later phase.

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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.

This consultation represents the first step in the UK ETS Authority's consideration of extending the Scheme, with the next step involving assessing the number of allowances that would be available Phase II. This will be subject to further consultation, which I will provide an update for in due course.

The UK ETS is a key policy lever, driving decarbonisation across Wales and the UK, encouraging investment, reducing emissions, and helping to secure a resilient, sustainable future for Wales. Extending the scheme will enable it to continue playing a critical role in achieving economically efficient decarbonisation and meeting our legally binding net zero target, interim goals, and future carbon budgets – both within Wales and across the UK. I expect to write again regarding the outcome of further consultations and policy proposals in the coming months. I am copying this letter to the Chair of the Climate Change, Environment and Infrastructure Committee.

Yours sincerely,

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name 'Huw Irranca-Davies'.

Huw Irranca-Davies AS/MS

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